BANCA NAZIONALE DEL LAVORO
QUARTERLY REVIEW

32

ROME

BANCA NAZIONALE DEL LAVORO

HEAD OFFICE: ROME

VIA VITTORIO VENETO, 119

Condensed Statement of Condition, March 31, 1955

ASSETS	(Lire)	LIABILITIES	
Cash, Balances with Banks & Money at call	161,502,138,487	Capital	1,150,000,000
Investments: Govt. & semi-Govt. Securities & Treasury Bills	97,007,624,309	Ordinary Reserve Fund	5,075,000,000
Investments: Other Securities	6,730,297,647		6,225,000,000
Contango, Advances on Securities & Loans	234,861,301,155	Deposits & Current Accounts	526,593,847,466
Bills receivable	142,334,911,299	Cheques in Circulation (*assegni circolari*)	15,536,307,911
Sundry Accounts	2,729,512,639	Bills for collection	28,931,028,212
Premises, Furnitures & Fixtures	1	Guarantees & Acceptances for A/C of Customers	54,167,322,903
Customers' Liability for Guarantees & Acceptances	54,167,322,903	Sundry Accounts	53,046,316,603
	699,333,108,440	Staff individual Retirement Accounts	11,832,326,519
		Unearned Discount & other unearned Income	3,000,958,826
			699,333,108,440
Securities deposited by Third Parties	183,223,871,447	Depositors of Securities	183,223,871,447
Special guaranteed Accounts	11,652,562	Accounts guaranteeing special Accounts	11,652,562
Staff Assistance & Retirement Fund - Securities deposited by the Bank as Guarantee	12,243,361,527	Bank's Securities guaranteeing Staff Assistance & Retirement Fund	12,243,361,527
	894,811,993,976		894,811,993,976

AUTONOMOUS SECTIONS FOR SPECIAL CREDITS

SECTION FOR CREDIT TO MEDIUM AND MINOR INDUSTRIES

Capital, Reserves and Government Guarantee Fund L. 2,628,775,000

SECTION FOR HOTEL AND TOURIST CREDIT

Aggregate Capital and Reserves L. 743,404,496

SECTION FOR CO-OPERATIVE CREDIT

Capital and Reserves L. 2,625,202,521 — Government Guarantee L. 2,000,000,000

SECTION FOR MORTGAGE CREDIT

Aggregate Capital and Reserves L. 1,365,014,974

SECTION FOR CINEMA CREDIT

Aggregate Capital and Reserves L. 811,159,684

BANCA NAZIONALE DEL LAVORO QUARTERLY REVIEW

Vol. VIII, No. 32, March 1955

SUMMARY

A series of investigations into the costs of the Italian banking system has been made during the last few years by Prof. Mario Mazzantini. Some results — which, in view of the fragmentary nature of the available statistical material, must be regarded as generalisations of a rather broad character — are now summarized in the article entitled « *Operating Costs of the Italian Banks* ». The article is based on an examination of the profit and loss accounts of 50 banks — which at the end of 1953 held 83 per cent of the deposit and current accounts of the entire Italian banking system —, and divides the total of banking costs into two main groups: a) *operating costs* (personnel, taxes, losses, amounts written off, sundry expenses); and b) *interest paid* on saving deposits and current accounts. For each of these two groups and their respective components Prof. Mazzantini seeks to calculate the absolute level, and the relative weight in the total, during the years 1938 to 1953.

The analysis is related to the difficult problems and the heavy burdens which were imposed on the banking system by the war and the inflation, and which explain the higher level and the changed structure of present banking costs compared with those of the pre-war period. The marked alteration in the structure of banking costs which took place between 1938 and 1953 is characterised particularly by the increase in the proportion of staff costs to the total. Since 1948, however, when the distortion reached its peak, a process of readjustment has been taking place. This is a reflection, on the one hand, of the efforts towards rationalization made by the banks, and, on the other, of the improved general conditions due to monetary reconstruction and economic development.

« Undoubtedly — Prof. Mazzantini concludes — bank costs still remain relatively high. But between 1948 and 1953 *operating costs* were steadily reduced by a considerable margin *in relation* to total deposits... On the other hand, their relative decrease during recent years has been partly offset by the rise in *interest paid* on deposit and current accounts. The two categories of costs, however, are not to be lumped together in one item, because they indicate very different things. It is only the operating costs which can show how much the banking system is « costing » the community; interest paid, on the other hand, goes straight back to depositors. As a matter of fact the rise in rates of interest paid, coupled with a steady reduction in the rates charged by banks for loans of all kinds, has benefited both savers and the business community ».

At present, the process of reducing bank costs is still continuing, and Prof. Mazzantini believes that further progress can be made in the near future.

• • •

Prof. J. S. G. Wilson, who in an article on « *The French Deposit Banks and the Banques d'Affaires* » published in an earlier number of this Review (No. 31, 1954) gave an account of the structure and operating techniques of the French banking system, offers a sequel in this number. In his second article, he examines « *Post-war Monetary Policy in France* », tracing its developments up to 1954 and throwing light both on the

guiding principles of recent French monetary policy and on the comparative effectiveness of the various concrete measures of credit control.

From among the « lessons » that may be drawn from this highly varied and changing experience the author emphasizes the desirability of combining the « ceiling technique » with a positive and discriminating interest rate policy; the low degree of effectiveness of qualitative controls prior to the introduction of quantitative measures; and the necessity that credit controls should be comprehensive and complementary so that they may influence the entire money and capital market.

* * *

A statistical analysis of the relationships of costs and volume of operations in the various fields of activity of a bank may be useful for planning and also as evidence indicating whether an increase or decrease of efficiency is associated with a change in the volume of operations in any field. A method for such analysis is outlined by Dr. Pietro Castiglioni in the paper « *Cost Analysis and Cost Forecasting in the Bank* ».

* * *

The system of « *Invalidity, Old-age and Survivors' Compulsory Insurance in Italy* » for the employees and workers of private undertakings is analysed by Dr. Gina Papa with reference to its historical development from 1898 to 1952 and to its present characteristics and problems.

The central part of the article examines the social insurance crisis which occurred during and after the war, when inflation destroyed the real value of pensions, and sums up the essential features of the reforms carried out under the 1952 Act: simplification of the administration, adjustment of pensions to the new economic situation, increase in benefits, introduction of substantial State contributions, and their implications for the government finances and Italy's general economic problems. The final paragraphs describe the operating mechanism of this law and report a series of statistical data that may be useful for putting the problems examined in a proper perspective.

* * *

In his article on « *Australian Post-war Immigration* », Prof. Donald Cochrane offers an up-to-date statistical picture of immigration into Australia from 1945 to 1954, a problem which is of special interest for Italian emigration. He briefly comments on the policy followed by the Australian government in this field, and on the effects which immigration has had on the country's economy.

The Banca Nazionale del Lavoro assumes no responsibility for opinions or facts stated by authors whose contributions are published in the present Review.

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Operating Costs of the Italian Banks (*)

I - The Statistical Sources and the Overall Cost Structure.

1. — In Italy since the war there has been a good deal of talk about the problem of the banks' expenses, chiefly because it is closely connected with another much discussed problem that is of great importance to the business community: that is to say, the « high » level of the interest rates charged by the banks for loans to their customers.

During recent years we have already devoted several articles to the subject of banking costs (1). Our object then was to state the main items which make up the total costs of the Italian banks; to compare the post-war conditions with those prevailing before the war; and to describe the current trends. In the present article we propose to supplement those earlier studies and bring them up to date.

For this purpose the chief difficulty — and to some extent it is insurmountable — lies in the inadequacy of the statistics. In the main these come under two heads:

a) the data published each month by the Bank of Italy in its « Statistical Bulletin » with regard to the Italian banking system as a whole;

b) the balance sheets of individual banks.

Unfortunately, owing to the way in which the Bank of Italy's statistics are compiled, they cannot be used for our present purpose (2). We have therefore been obliged to fall back on the profit and loss accounts of the individual banks. But even these do not provide an ideal source. The profit and loss accounts which Italian banks *publish* are subject to no rules laying down their arrangement or what they are to contain (3). And they are made out in widely different forms, being often so synthetical that no statistical study can be based on them. This makes it frequently necessary in the present article to fall back on estimates and assumptions, so that readers should use caution in drawing deductions from the results. These results moreover refer to the banking system as a whole or to the main categories of institutions in it (4); they accordingly conceal the differences between institutions, even though such differences may be great.

2. — In our first article, in 1949, we dealt with 10 banks, and in 1951 the second cover-

(*) This is an abridged version of a paper appearing in « Moneta e Credito », a Quarterly Review published by the Banca Nazionale del Lavoro in Italian, No. 27, 3rd Quarter, 1954.

The term « bank » includes, in addition to ordinary commercial banks, savings banks and credit cooperatives. Institutes for medium-term credit are excluded.

(1) See *I costi di gestione delle banche italiane*, in « Moneta e Credito », No. 7, 3rd Quarter, 1949; *È possibile ridurre i costi di gestione delle banche italiane?*, in « Moneta e Credito », No. 16, 1951; and *Ancora sui costi di gestione delle imprese bancarie*, in « Bancaria », 1952.

(2) The chief reasons why they cannot be so used are as follows:

(a) The administrative costs, the interest paid and discount under all heads, are lumped together into a single item called « expenses and losses ».

(b) Many banks set off the interest paid on current accounts against the interest received on loans; they set off the discount paid on bills rediscounted against that received on bills which they discount for customers, and so forth.

(c) The item « expenses and losses » as well as the corresponding item on the side of receipts, appears only as from the end of 1949 onwards. The 1938 statistics on the other hand indicate only the total *net* profit for the year, or losses if any. This makes comparison impossible.

(d) A study of the three « banks of national interest » revealed that for 1949 and 1950 the Bank of Italy's official statistics showed « expenses » at 19,725 million and « losses » at 22,455 million, whereas the profit and loss accounts of the three banks in question showed these items at 33,490.4 million and 37,384.2 million respectively. No explanation of these substantial differences could be found.

(3) Italian banks send to the Bank of Italy quarterly statements which are drawn up on uniform lines; but these statements are not available to the public.

(4) « Public Law Credit Institutes » (five); « banks of national interest» (three); private companies or firms; credit cooperatives; and savings banks.

ed 24. This time we deal with 50, including all the 24 previously discussed, and for all 50 we have obtained the full set of balance sheets from 1937 to 1953. The sample is made up as follows:

— 5 « public law credit institutions », being all that exist in this class (*Banca Nazionale del Lavoro, Banco di Napoli, Banco di Sicilia, Istituto S. Paolo di Torino, Monte dei Paschi di Siena*);

— 3 « banks of national interest », these too being all that exist (*Banca Commerciale Italiana, Credito Italiano, Banco di Roma*);

— 17 banks incorporated as companies or private firms, whose total assets at the end of 1953 represented 67% of those of all banks in this category;

— 12 credit cooperatives, with total assets representing 79% of all those belonging to such institutions at the end of 1953;

— 13 savings banks, with total assets representing 55% of those of all savings banks.

Taken together, the 50 banks at the end of 1953 held 83% of all deposits and current accounts in lire in the Italian banking system. But owing to the differences of arrangement already mentioned it was unfortunately not always possible to add together corresponding items from the balance sheets of all of them. That could be done only where the figures in the balance sheets of the various banks were found to show certain categories of expenditure in a sufficiently uniform manner (5).

3. — We propose in the present study to classify the Italian banks' costs as follows:

I. - *Administrative expenses* (or *operating costs*):

— expenditure on personnel, social security, pensions, grants, etc.;

— taxes;

— losses, amounts written off, applied to depreciation, etc.;

— sundry expenses.

COMPOSITION OF ITALIAN BANKING COSTS: PERCENTAGE FIGURES — TABLE I

Items	1938		1948		1953	
Interest on saving deposits	69	29	52	6	33	10
Interest on current accounts	31	13	48	6	67	20
Interest paid - Total	100	(42)	100	(12)	100	(30)
Expenditure on personnel	41	24	68	60	60	42
Taxes and dues	15	9	4	4	7	5
Losses, amounts written off, etc.	17	10	15	13	10	7
Sundry expenses	27	15	13	11	23	16
Operating costs - Total	100	(58)	100	(88)	100	(70)
		100		100		100

II. - *Interest paid*:

— on saving deposits;

— on current accounts.

(5) The following comment may be offered:

A) Among the *administrative expenses* or *operating costs* the item most commonly found in the statements of the 50 banks that were examined is « taxes ». This is found in the case of 37 banks, while expenditure on personnel is shown separately in the case of only 19, not including any of the larger institutions.

As regards the losses, amounts written off, applied to depreciation, etc. the statements of 18 banks (including 10 savings banks) show separate items; but there is obviously great divergence in what these contain.

Nor can it be said that the amount of the operating costs shown in the statements really represents all that was spent, without any offsetting of expenditure against receipts. In many banks it must be supposed that the contrary was the case.

The statements of some banks indicate only one or two items of expenditure. For further details see the table in footnote (6).

B) Matters are no better in regard to the *interest paid*. Of the banks whose statements we examined only 10 indicated

The general breakdown of banking costs is summarised in Table I. The percentage ratios there shown make it possible to point out in a general way several significant aspects of the matter, even though there are so many gaps in the statistics that the results cannot be regarded as indicating anything more than trends.

Among the items making up bank costs in 1938 the largest share, of 29%, was taken by interest on saving deposits. Next came expenditure on personnel with 24%, sundry expenses 15%, interest on current accounts 13%, amounts written off 10% and taxes 9%. By 1948, after war and inflation, the situation had radically changed. Interest on saving deposits had dropped to the modest level of 6%, while the expenditure on personnel alone took 60%, being followed a long way behind by depreciation at 13%. The interest on current accounts had also fallen from 13% to 6%.

From 1948 onwards, in the new conditions of stable currency, a better balanced pattern began to emerge. The expenditure on personnel, although keeping first place, steadily dropped to 42% of the total costs in 1953. Meanwhile the interest on current accounts rose considerably, reaching 20% of total costs in 1953 as against only 6% in 1948 and 13% in 1938.

Total interest paid, after falling from 42% in 1938 to 12% in 1948, was up to 30% again in 1953. Meanwhile the administrative costs, after going up from 58% in 1938 to 88% in 1948, steadly fell to 70% in 1953. But the ratio of these costs to the total still remains higher than before the war, mainly because of the rise in cost of personnel, even though the average rates of interest paid on saving deposits and current accounts probably rose to some extent between 1938 and 1953.

both the interest paid on saving deposits and also, as a separate item, that paid on current accounts. 12 banks make it impossible to see the amount of interest paid even on saving deposits, indicating this in items obscurely described, or even lumped together with discount paid, interest paid on advances and loans received, or brokerage and commission paid, as well as in some cases with interest paid on current accounts. A further 28 banks regularly show the interest paid on current accounts, but add such subsidiary items as depreciation, so that there is ground for supposing that they may have offset the interest paid on current accounts against the interest received on lendings to customers.

II - Administrative Expenses.

4. — Let us now turn to the administrative expenses, these being the main subject of this article (6). Table II shows the movement in them for the whole of the Italian banking system from 1938 to 1953.

As will be seen, in 1953 the administrative expenses for the entire Italian banking system were close to 200,000 million lire; and they were more than 100 times as great as in 1938, while the deposits and current accounts were 63.6 times their 1938 size. The rise in administrative expenses was thus much greater than that in deposits and current accounts. But the divergence occurred entirely during the war and the early post-war years. From 1949 onwards there was on the contrary a tendency for the difference to become smaller. We then find both indices still rising, but the deposits and current accounts do so faster than the administrative expenses.

It is worth repeating that the post-war rise in administrative expenses (or operating costs) was mainly due to the cost of personnel. Whereas this accounted for 41% of the operating costs in 1938, the corresponding proportion was as high as 68% in 1948, although it then

(6) As regards administrative expenses the figures given in the text are based on the statements of banks in the various groups as follows:

Bank categories	Number of banks considered	Banks considered for the following items of expenses		
		Personnel	Taxes and dues	Sinking funds, Losses, etc.
Public Law Credit Institutes	5	1	1	3
Banks of National Interest	3	—	2	1
Ordinary Credit Banks	17	4	11	2
Peoples' Co-operative Banks	12	5	10	2
Savings Banks	13	9	13	10
Total	50	19	37	18
Operating costs in 1953 (millions of lire)	159.331	33,646.6	85,522.9	82,186.4
% ratio	*100*	*21.1%*	*53.6%*	*51.6%*

fell to 60% in 1953. Taxes would appear to have declined from 15% in 1938 to 4% in 1948, and then risen to 7% in 1953. A noteworthy relative decrease seems to have occured in the « losses, amounts written off, and applied to depreciation », which dropped from 17% in 1938 to 15% in 1948 and 10% in 1953. A warning must however be given that this item is of highly doubtful significance, and the percentages relating to it should be treated with great caution. It probably overlaps with the « sundry expenses », since the combined percentage for the two items shows remarkable steadiness.

5. — Let us now try to arrive at the cost — for the banking system as a whole, and for the five main groups which make it up (7) — of administering 100 lire of deposits or of resources in any other form.

To do this we need to know the absolute amount of the operating costs and of the funds administered, in each group of banks. The absolute figures for administrative expenses are given in Table III, which is an extension of Table II. As for the other element in the ratio, namely the funds administered, one could take:

a) lira saving deposits and current accounts; or

b) total assets — of course greater than *a*); or

c) total assets plus acceptances for account of customers, guarantees given for customers, and confirmed credits opened; or

d) the amount of *a*) plus that given in the statistics for customers' securities held in safe custody.

If the ratios between *a*), *b*), *c*) and *d*) were constant over a period of time, then use of any one of the four would merely shift in equal proportion the percentage ratios which we are going to calculate. But in fact those ratios vary not only between groups of banks, but also from year to year between banks in the group.

What is more, the banks' business is not confined to collect money on time deposit and current account and lending it out; they render sundry services, recorded in the balance sheets under separate headings. One need only think of foreign exchange business, collections, accommodation by way of endorsement and so forth. For these reasons it appears best to take *c*). However, in view of the preminent importance of time deposits and current accounts, we have also worked out the ratio of administrative expenses to these.

(7) See footnote (4).

TABLE II

OPERATING COSTS IN THE ENTIRE BANKING SYSTEM

Year	Operating costs			Deposits and current accounts	
	Millions of lire	Index (1938 = 1)	Index (prev. year = 1)	Index (1938 = 1)	Index (prev. year = 1)
1938	1,824	1	—	1	—
1948	100,294	55.–	—	2.28	—
1949	122,391	67.1	1.22	30.7	1.34
1950	136,204	74.7	1.11	36.8	1.20
1951	156,348	85.7	1.15	42.6	1.16
1952	178,305	97.8	1.14	52.8	1.24
1953	196,687	107.8	1.10	63.6	1.20

We have also calculated for each category of banks the ratio between total assets and total deposit and current accounts, each as annual averages (*Table IV*). The object is to show to what extent the banks in each category do business which goes beyond simply employing deposits (8). Clearly the indication thus obtained is valid only in so far as the banks' subsidiary activities give rise to entries in their balance sheets.

6. — The figures in Tables III and IV make it possible to express the Italian banks'

(8) As will be seen from Table IV, at the « public law credit institutions » and at the « banks of national interest » the subsidiary activities showed a noteworthy increase in extent after the war as compared with 1938. This tendency became less pronounced during the last tree years (1951-52-53), more so at the public law credit institutions (which returned almost to the pre-war state of affairs in this respect) than at the banks of national interest.

In the other categories of banks the variations in the ratios were smaller. Between 1938 and 1953 the ratio of total assets to deposits and current accounts for banks in the form of limited companies fell from 1.47 to 1.35, that for credit cooperatives dropped from 1.40 to 1.34; and that for savings banks rose from 1.29 to 1.34.

OPERATING COSTS OF THE ITALIAN BANKS

TABLE III

Year	Public Law Credit Institutes			Banks of National Interest			Ordinary Credit Banks			Peoples' Co-operative Banks			Savings Banks			Total		
	Milli rds of lire	Index		Milliards of lire	Index		Milliards of lire	Index		Milliards of lire	Index		Milliards of lire	Index		Milliards of lire	Index	
		Base 1938	Base prev. year		Base 1938	Base prev. year.		Base 1938	Base prev. year		Base 1938	Base prev. year		Base 1938	Base prev. year		Base 1938	Base prev. year
1938	0.4198	1	—	0.4464	1	—	0.2734	1	—	0.1567	1	—	0.5273	1	—	1.8236	1	—
1948	27.4477	65.4	—	25.7485	57.7	—	16.5560	60.5	—	8.5520	54.5	—	21.8310	41.4	—	100.1352	55.0	—
1949	32.1918	76.7	1.17	30.2272	67.7	1.17	21.5120	78.7	1.29	10.6970	68.2	1.25	27.7630	52.6	1.27	122.3910	67.1	1.22
1950	35.4880	84.5	1.10	32.9728	73.9	1.09	24.3980	89.2	1.14	12.6830	80.9	1.19	32.4310	61.5	1.17	137.9728	74.7	1.11
1951	40.6228	96.8	1.14	37.7386	84.5	1.14	28.7310	105.1	1.18	13.2910	84.8	1.05	35.7100	67.7	1.10	156.0934	85.7	1.15
1952	44.9601	107.1	1.11	43.3511	97.1	1.15	32.8600	120.1	1.14	15.0990	96.3	1.14	41.8070	79.3	1.17	178.0773	97.8	1.14
1953	49.1000	117.–	1.09	46.7852	104.8	1.08	36.7210	134.3	1.11	15.9180	101.5	1.05	48.1630	91.3	1.15	196.6870	107.8	1.10

ADMINISTERED FUNDS OF THE ITALIAN BANKS: ANNUAL AVERAGES

(milliards of lire)

Year	Public Law Credit Institutes			Banks of National Interest			Ordinary Credit Banks			Peoples' Co-operative Banks			Savings Banks			Total		
	Annual average		Ratios	Annual average		Ratios	Annual average		Ratios	Annual average		Ratios	Annual average		Ratios	Annual average		Ratios
	Deposit and current accounts A	Total assets B	B/A	Deposit and current accounts A	Total assets B	B/A	Deposit and current accounts A	Total assets B	B/A	Deposit and current accounts A	Total assets B	B/A	Deposit and current accounts A	Total assets B	B/A	Deposit and current accounts A	Total assets B	B/A
1938	8.8	15.7	1.78	13.9	21.6	1.55	8.6	12.6	1.47	5.3	7.4	1.40	18.9	24.3	1.29	55.5	81.6	1.47
1948	283.1	534.4	1.89	305.6	529.1	1.73	271.6	374.7	1.38	143.2	203.4	1.42	262.1	343.9	1.31	1,265.6	1,985.5	1.57
1949	374.–	690.6	1.85	404.5	709.–	1.75	372.5	503.4	1.35	189.4	264.7	1.40	365.6	470.3	1.29	1,706.–	2,638.–	1.55
1950	457.5	852.4	1.86	474.4	827.6	1.74	449.2	608.7	1.35	224.9	315.3	1.40	439.4	570.–	1.30	2,045.5	3,174.–	1.55
1951	537.–	1,086.9	2.02	564.8	1,038.3	1.84	520.3	726.3	1.40	246.6	349.2	1.42	496.2	657.6	1.32	2,364.9	3,858.3	1.63
1952	671.6	1,298.3	1.93	709.–	1,253.4	1.77	654.7	896.6	1.37	306.–	423.9	1.39	591.3	792.2	1.34	2,932.6	4,664.3	1.51
1953	809.–	1,459.4	1.80	855.6	1,422.7	1.66	793.1	1,074.7	1.35	370.2	497.5	1.34	703.5	946.9	1.34	3,531.4	5,401.2	1.53

operating costs in per cent both of their deposits and of their total assets. The result of doing so is given in Table V.

As will be seen, for every 100 lire of total assets the banks in 1953 incurred administrative expenses amounting to 3.6 lire as against 2.2 lire in 1938. On every 100 lire of deposits and current accounts the charge for administrative expenses was 5.6 lire in 1953 as compared with 3.3 lire in 1938. The maximum level would seem to have been reached in 1948, when the expense ratio was 5% and 7.9% respectively on the two bases. Between 1948 and 1953 there was thus considerable improvement, reflecting the efforts made by banks to achieve greater efficiency and productivity. Between those two years the reduction in costs would seem to have reached 28% to 29% for the banking system as a whole, with peaks of 33% for « public law credit institutions » and « banks of national interest » and an average of 24% for the other categories.

This return towards pre-war conditions represents a movement towards a better balanced pattern. The increasingly high rate of remuneration offered from 1948 to 1953 on deposits and current accounts was made possible by the relative decline in operating costs.

7. — We have already pointed out the great relative importance of expenditure on personnel since the war. The growth in this item results partly from the rise in salaries which, even in real terms, would seem on the average to have exceeded the devaluation of the currency. But it is due still more to the increase in the total staff employed from 53,000 in 1938 to 93,000 in 1953. This increase in turn largely reflects the changed conditions which have made banking work more complex, laborious and intricate. This is not the place to enter into a detailed analysis of these factors. We must confine ourselves to pointing out some further principal causes of what occurred.

First of all, many departments are now carrying a much heavier burden of clerical work in connection with new services of a public nature for which the banks have been made responsible, such as the foreign exchange regulation, the administration of import and export controls (and furthermore the volume of Italian foreign trade has grown considerably larger as compared to prewar), etc.

In the second place, the rôle of Italian banks as account-keepers for the community is now much more important than it used to be before the War (10). The range of banking services made available to the public has become broader and more diversified, while the number of bank customers has increased substantially. In other words, in Italy too, the function of the banks as « ledger clerks » for the whole community has increased in importance as compared to the traditional function of « capital intermediaries ».

In the third place, there is a series of maladjustments connected with the devaluation of the lira (to be discussed more throughly in para. 11 below), including:

— the inadeguate adjustment of the average value of each transaction to the process of monetary devaluation (11). This increases the book-keeping work and the number of accounting entries;

— more work is entailed in handling and holding cash because the denominations of bank notes have not been increased enough to correspond to the devaluation of the lira;

— for the same reason more work is required for handling and holding securities in the form of shares, Government and other bonds and the coupons belonging to them;

— the clerical and accounting work is increased by the need to write numbers with more digits to express the same real values as in 1938. This difficulty has now been partly overcome by dropping the *centesimi* and showing amounts to the nearest lira.

Lastly, we should mention the increased number of bank branches from 7,384 in 1938 to 7,874 in 1953.

(10) In this respect, the expansion of current accounts and cashier checks is highly significant. The former increased 111 times from 1938 to 1953 (saving deposits having increased only 53 times); the latter increased 97 times (end of year figures).

(11) That is to say the average size of each savings bank book, each current account, each inward or outward payment, each bill discounted or collected, each circular cheque, the average par value of each security representing bonds or shares, etc.

OPERATING COSTS IN ITALIAN BANKS

TABLE V

No.		A) As percentages of total assets							Indexes of percentages (1938 = 1)						Indexes of percentages (prev. year = 1)				
		1938	1948	1949	1950	1951	1952	1953	1948	1949	1950	1951	1952	1953	1949	1950	1951	1952	1953
1	Public Law Credit Institutes . .	2.7	5.1	4.7	4.2	3.7	3.5	3.4	1.89	1.74	1.56	1.37	1.30	1.26	0.92	0.89	0.88	0.95	0.97
2	Banks of National Interest . . .	2.1	4.9	4.3	4.—	3.6	3.5	3.3	2.33	2.05	1.90	1.71	1.67	1.57	0.88	0.93	0.90	0.97	0.94
3	Ordinary Credit Banks	2.2	4.4	4.3	4.—	3.9	3.7	3.4	2.—	1.95	1.82	1.77	1.68	1.55	0.98	0.93	0.98	0.95	0.92
4	Peoples' Co-operative Banks . .	2.1	4.2	4.—	4.—	3.8	3.6	3.2	2.—	1.90	1.90	1.81	1.71	1.52	0.95	1.—	0.95	0.95	0.89
5	Savings Banks	2.2	6.3	5.9	5.7	5.4	5.3	5.1	2.86	2.68	2.59	2.45	2.41	2.32	0.94	0.97	0.95	0.98	0.96
6	*Total*	2.2	5.—	4.6	4.3	4.—	3.8	3.6	2.27	2.09	1.95	1.82	1.73	1.64	0.92	0.93	0.93	0.95	0.95
		B) As percentages of deposit and current accounts																	
1	Public Law Credit Institutes . .	4.8	9.7	8.6	7.8	7.6	6.7	6.1	2.02	1.79	1.62	1.56	1.40	1.27	0.89	0.91	0.98	0.88	0.91
2	Banks of National Interest . . .	3.2	8.4	7.5	6.9	6.7	6.1	5.5	2.62	2.34	2.16	2.09	1.91	1.72	0.89	0.92	0.97	0.91	0.90
3	Ordinary Credit Banks	3.2	6.1	5.8	5.4	5.5	5.—	4.6	1.91	1.81	1.69	1.72	1.56	1.44	0.95	0.93	1.02	0.91	0.92
4	Peoples' Co-operative Banks . .	2.9	6.—	5.6	5.6	5.4	4.9	4.3	2.07	1.93	1.93	1.86	1.69	1.48	0.93	1.—	0.96	0.91	0.88
5	Savings Banks	2.8	8.3	7.6	7.4	7.3	7.1	6.8	2.96	2.71	2.64	2.61	2.54	2.43	0.92	0.97	0.99	0.97	0.96
6	*Total*	3.3	7.9	7.2	6.7	6.6	6.1	5.6	2.39	2.18	2.03	2.—	1.85	1.70	0.91	0.93	0.98	0.92	0.92

The increase in the number of bank employees has caused a reduction in the amount of funds administered per employee. In 1953 there were 93,000 members of bank staffs administering 3,531 billion lire of deposits and current accounts, whereas in 1938 there were 53,000 administering 3,108 billion lire (lire with 1953 purchasing power). The corresponding figures for average total assets were 5,401 billion in 1953 and 4,488 billion in 1938. Thus the average amounts handled per employee were 38 and 58 million lire in 1953, as against 58.6 and 84.7 million in 1938 (12).

III - Cost of Interest Paid on Deposits and Current Accounts; Total Costs.

8. — It is more difficult to investigate the pattern and the amount of the expenditure on interest, more particularly the interest on current accounts (13). Indeed, the cost of interest on current accounts is the really unknown element in any attempt to arrive — on a statistical basis — at the probable composition of costs in the Italian banking system.

As has been already stated in footnote 5, only 10 of the 50 banks considered (14) show in their published statements what they paid out in interest on current accounts separately from the interest paid on saving deposits (15). The figures for these ten banks indicate that in 1938 the total interest paid represented 42.3% of the total costs, while the balance of 57.7% represented administrative expenses (16). In 1948 the interest load had fallen from 42.3% to 12.3%, only to rise steadily during the next few years to the level of 25.7% in 1953.

Would it be safe to regard this percentage as applying to the whole banking system? We think not. In Table I indeed the ratio of expenditure on interest to total bank costs was put, *for the whole banking system*, not at 25% but at around 30%. We cannot enlarge here on the reasons for this adjustment (17). They are however based on the difference in relative importance of current accounts, and in the growth of operating costs, as between the 10 banks and the banking system as a whole.

In the field of expenditure on interest, in the whole banking system, the growing weight of interest paid on current accounts is highly significant. This rose from 31% of total interest costs in 1938 to 48% in 1948, and to 67% in 1953. The rise can be explained only in part by the higher rate of growth in current accounts than in saving deposits; aside from that it reflects the favoured treatment accorded to current accounts of a certain size under the pressure of competition, which had become especially keen in the period preceding the inter-bank agreement of January, 1954.

(12) The actual amounts for 1938 have been multiplied by 53, this being the wholesale price index for 1953 on the basis of 1938=1, so as to convert them into 1953 lire.

(13) In Italy, debit (minimum) and credit (maximum) banking interest rates are fixed by the so-called « banking cartel ».

The first cartel agreement was signed in 1919 by the four leading Italian banks of that time. Later, under the « Banking Act of 1936 », the rates for the various transactions and the terms of banking services came under the control of the monetary authorities, which were empowered to establish maximum or minimum rates. In the early fifties official limits were being generally disregarded, and, with the toleration of the authorities, the competition among Banks became very keen also in the field of rates. The rates paid on deposits rose to unusually high levels, especially for sizeable current accounts for which, in 1953, there was a tendency to exceed 4% per annum (as compared to an official ceiling of 0.50%).

At the end of 1953, the Banks — which were feeling the adverse effects of excessive competition through rates of interest — signed a new voluntary agreement, rather complicated and favorable to large current accounts. The Agreement was renewed for 1955, with some changes (the 4% maximum rate can be granted only for current accounts held by special categories of depositors and showing an average annual balance of at least 500 million Lire. The same rate is also payable on deposits fixed for at least one year).

(14) 2 public law credit institutions, 7 limited liability companies and 1 credit cooperative.

(15) Even for these 10 banks one must certainly make reservations as to whether all the costs are shown in their profit and loss accounts. Probably for instance the discount paid on rediscounted bills (amounting to considerable sums, especially for those banks which finance grain storage agencies), the interest paid on carry-over loans and advances taken, and the commissions paid to correspondents for collections or other services, as well as other outgoings have been set off against receipts of a similar nature. In fact the 10 banks in question show outgoings under these heads in 1953 to the extent of only 260.3 million lire, which we have neglected. Actually it is quite reasonable to set off the outgoings against the receipts under these heads, and the practice does not seriously hinder interpretation of the figures.

(16) Before deduction of « category A income tax » paid by the banks on deposit interest without the right of recovery being exercised. If this tax is deducted from the operating costs and added to the interest paid, the latter would amount to at least 50% of the total costs.

(17) The point is discussed in the Italian edition of this article. See « Moneta e Credito », No. 27, 3rd Quarter of 1954.

9. — The average level of the rate of interest now paid on deposits and current accounts as a whole is not shown in the available statistics, nor can it be calculated therefrom. The best that can be done is to estimate the rate. We have put it at 2.50% for the whole banking system in 1953. If it is borne in mind that for 1950 we put the average rate between total costs and funds administered for the individual groups of banks and the banking system as a whole in 1953. It will be seen that for each 100 lire of total assets administered the banks in that year had expenses of 5.2 lire, while on each 100 lire of deposits and current accounts the charge was 8 lire.

TOTAL COSTS IN ITALIAN BANKING SYSTEM FOR 1953, BY BANK CATEGORIES — Table VI

	Administered funds		Total costs			% Ratio:	
	Deposit and current accounts	Total assets	Credit interests	Operating costs	Total	of total costs to deposit and current accounts	of total costs to total assets
	1	2	3	4	5	6	7
	(milliards of lire)						
Public Law Credit Institutes	809.0	1,459.4	20.2	49.1	69.3	8.5	4.7
Banks of National Interest	855.6	1,422.7	21.4	46.8	68.2	7.9	4.7
Ordinary Credit Banks	793.1	1,074.7	19.8	36.7	56.5	7.1	5.2
Peoples' Co-operative Banks	370.2	497.5	9.3	15.9	25.2	6.8	5.0
Savings Banks	703.5	946.9	17.6	48.2	65.8	9.3	6.9
Total	3,531.4	5,401.2	88.3	196.7	285.-	8.0	5.2
Percentage distribution			30.9	69.1	100		

of interest on deposits at around 0.60% (18), the extent of the upward movement during the last few years becomes evident. By 1953, in fact, credit interest rates had reached levels definitely higher than before the war, since it may be assumed that the average level in 1938 was lower than 2.50%.

10. — On the assumption that the average rate of interest paid to depositors was 2.50%, Table VI sets out to show the amount and the breakdown of total costs in the Italian banking system. Readers should especially notice columns 6 and 7, showing the ratio

(18) See *Ancora sui costi di gestione delle banche italiane*, loc. cit.

These ratios, however, are to be taken with considerable caution. It should not be inferred therefrom that the banks, in order to break even, must obtain from their assets an average gross profit of not less than 5.2%. The average return from total assets (and it should not be forgotten that this is an average deriving from widely diversified elements, including non-interest-bearing items and items yielding little interest) can be somewhat lower, because an overall calculation of receipts should include all monies received by the banks from the so-called « subsidiary services ». The latter have acquired increasing importance in the last few years, and not always do they result in entries in the balance sheets of the banks.

IV - Prospects for Bank Costs.

11. — During the first few years after the war the growth of bank costs seemed closely connected with inflation and the related contraction in total deposits and current accounts expressed in real terms. This aspect of the matter tended to overshadow all the other factors which also went to swell the bank's administrative expenses. But those factors became apparent when the fog of inflation cleared, and total saving deposits and current accounts first equalled and then exceeded the 1938 figure in terms of real values.

Evidently, if the banks' deposits keep on growing to a considerable extent, their operating costs ought to feel the benefit. Indeed, the hope that the ratio of costs to funds administered can be further appreciably reduced is mainly based on that expectation. Yet nobody can at the moment foresee how fast the deposits and current accounts will grow. Nor would it be safe to extrapolate the curve as found for the years 1948 to 1953, which would indicate growth at an average annual rate of about 20%.

Apart from growth in the total of deposits and current accounts, the possibility of further reducing bank costs depends on a number of conditions relating to organisation and technical methods. While these may in the aggregate be of considerable importance, the banks are in many cases unable to change them. Let us recapitulate:

A) In paragraph 7 we pointed out that bank note denominations had not been raised to accord with the devaluation of the currency (19). On 30th September, 1951 a million current lire required 663 notes of various denominations on the average. The number required in 1938 was 6,069; but, if this is divided by 56, being the proportion in which wholesale prices had risen by 1951, it becomes only 108. Thus the work of cashiers has been increased in the ratio of 663 to 108, that is multiplied by 6.1. There was certainly some improvement between 1951 and 1953, when this ratio dropped from 6.1 to 4.8; and this no doubt contributed towards the relative decline in bank costs during those years. But we are still far from having returned to the conditions existing in 1938.

It is not easy to express this unbalanced position in terms of the greater cost of the cashiers' work to the banks. There can however be no doubt that the increase in cost is substantial, because certain cost elements in the cashiers' department are closely proportionate to the quantity of notes and coins handled.

B) The banks are also having trouble with their work in connection with securities such as shares and Government and other bonds. The total number of securities circulating in Italy would seem to be not less than 50 million actual pieces of paper, without counting the Ordinary Treasury Bills, of which however not many circulate. To the question whether the average par value of each security is high enough in view of the new post-war value of the currency the answer is definitely « no » (20).

(19) On 31st December, 1938 there were in circulation 115 million Bank of Italy notes of denominations ranging from 50 to 1,000 lire and amounting to a total value of about 19 billion lire. On the average, therefore, 6,069 notes were needed to make up each million lire.

On 31st December, 1953 there were in circulation 411 million Bank of Italy notes, of denominations ranging from 500 to 10,000 lire, and amounting to a total value of about 1,448 billion lire. Accordingly, 284 notes were required to make up every million lire. The notes for 50 and 100 lire have become notes of the Government, but must be included in the calculation so as to keep the basis the same. On 31st December, 1953 they numbered at least 400 million, their total value being about 30 billion lire. At that date, therefore, there were altogether 811 million notes in circulation, to a total value of 1,478 billion lire, so that there were on the average 550 notes for every million present-day lire.

Applying a devaluation coefficient of approximately 53 one finds that for each million present-day lire the number of 1938 notes required would be $\frac{6,069}{53} = 115$. Thus the ratio between 1938 and 1953 is 1:2.3 if the 50 and 100 lira notes now issued by the Government are excluded, and 1:4.8 if they are included.

(20) The par value of each *mortgage bond* is at present 500 lire, the same as it has always been.

The securities representing *Government consolidated and redeemable debt* have not been the subject of any great changes. Only in the case of the 3.5% redeemable debt 1934 have the securities been compulsorily exchanged into new ones of a par value of 1,000 lire each, while a similar scheme is contemplated for the 3.5% rentes of 1902 and 1906.

In the case of *Treasury Bills* the par value of each security has been raised from 500 to 5,000 lire in the most recent issues.

The par value of *bonds of companies and public institutions*

C) Moreover, the average value of each bank transaction of the common types is also too low in view of the devaluation of the currency; but it seems fair to suppose that the market does not feel the need for an all-around revaluation. Let us make this point a little clearer:

(1) From certain incomplete statistical records of investigation it would seem that only the denominations of circular cheques and of the cheques issued by the Central Institution for Savings Banks are on the average as large as they were before the war. But it would also seem reasonable to suppose that this results merely from the wide use of cheques of high denomination, say of 3 to 5 million lire each, and not from any increase worth mentioning in the amount of the cheques issued each year as a whole.

(2) Nor has there been an adequate rise in the average size of *saving deposits and balances on current account*. Their number on 31st December, 1953 was extremely high at 19,247,241; and this fact helped to increase operating costs. It has been suggested that the number of deposit accounts is actually much larger than the number of depositors. This suggestion is based partly on knowledge of depositors' habits, and is supported by the fact that active customers of the banks at the end of 1953 numbered only 2,846,855. It is therefore to be hoped that the banks may devise some means of substantially reducing the number of their deposit accounts, with a corresponding reduction in costs.

(3) Even more intractable, if one may judge from the scanty data collected, is the problem of *bills of exchange*. The average amount of the individual bill would seem to have remained ever since 1948 at around 37 times what it was in 1938.

D) Finally, certain other statistics which have been collected suggest that the period which elapses between each banking transaction and the next one of the same kind grew shorter between 1938 and 1953. This again means a relative increase of work for the banks.

To conclude, if the ratio of bank costs to administered funds is to be brought down further, then the growth of deposits which has occurred during recent years must continue, while any increase in costs must be kept within narrow limits. Further, the average size of each transaction must be made to accord better with the reduced value of the currency; the many hindrances and restrictions must be removed or made less irksome; and the banks must be tireless in rearranging and improving their own organisation and accounting systems. Finally, competition among the banks must not prevent an agreement to fix deposit rates on a sound basis, reconciling the need to increase banking resources with the equal need to keep the cost of bank loans within such limits that they can be borne by borrowers.

12. — There can be no doubt that bank costs still remain relatively high, mainly because of the heavy burden of expenditure on personnel. And yet, if the facts are realistically considered, it must be said that between 1948 and 1953 operating costs were steadily reduced by a considerable margin in relation to total deposits. The average amount of funds administered per employee has risen; the banks have done much to rationalise their work and improve productivity; and these facts together have produced considerable results. One result was to make it easier to pay higher rates of interest to holders of saving deposits and current accounts in the way that has been several times mentioned.

is tending to be generally fixed at 5,000 lire, whereas in the past it was usually 500 or 1,000 lire.

As to *shares of companies* the only regulation is contained in the Law of 1948 with regard to cooperatives; it lays down a minimum par value of 500 lire. For other companies the par value of the shares ranges from one lira upwards, while par values of 100, 250, 500 and 1,000 lire are frequent. If one takes only those shares which are officially quoted on stock exchanges, the average par value works out at roughly 7 times what it was in 1938.

It is true that the use of certificates representing a number of shares avoids much of the trouble and expense entailed in handling securities; but it is often necessary to refer to the original par value, which brings the expenses up again. Nor is it possible to say whether the use of multiple certificates is as widespread as it ought to be.

It may finally be mentioned that Royal Decree Law No. 1148 of 25th October, 1941, by requiring that all shares must be in registered form, considerably increased the volume of work falling on the banks by comparison with 1938 and the pre-war period.

As can be seen from the figures given in this article, the relative decrease in operating costs during recent years has been partly offset by the rise in interest paid on deposits and current accounts. These two categories of costs however are not to be lumped together in one item, because they indicate very different things. It is only the operating costs which can show how much the banking system is « costing » the community; interest paid, on the other hand, goes straight back to savers. As a matter of fact the rise in rates of interest paid, coupled with a steady reduction of the rates charged by banks for loans of all kinds, has benefited both savers and the business community (21). In the case of current accounts, which now represent about half the total of deposit and current accounts together, there is ground for wondering whether the rates of interest paid in 1953 and 1954 did not reach too high a level in view of the fact that such accounts ought by their nature to represent working cash balances. The future inter-bank agreements ought to exert a moderating function.

MARIO MAZZANTINI

(21) From 1950 to 1953, while the average general rates on deposits and current accounts increased probably from 0.60% to 2½%, the overdrafts rates in the major cities decreased to under 8% for clients with excellent credit ratings, and the rates on commercial bills are now ranging around 6%.

Post-war Monetary Policy in France

I.

When France was liberated from German occupation in 1944, economic activity was at a low ebb. War damage was considerable and, over a period of years, French production and manpower had been drained off to be fed into the German war machine. The bulk of these « unrequited exports » was paid for in occupation currency and the volume of notes issued increased steadily. After liberation, the introduction of Allied currency further inflated the supply of money. There was also the legacy of the 1930's when — apart from a partial recovery in 1937 — production had been stagnant and the capital resources of the country had been allowed to run down to danger levels. Moreover, the whole nation was now in revolt against all types of restrictions associated with the occupation and therefore in no mood to accept a policy of austerity and self-discipline. Evasion of control had almost become a patriotic duty. Yet the situation clearly demanded strong action. Production, including the provision of the plain necessities of life, had to be raised rapidly. The reconstruction and re-equipment of the economy was a matter of great urgency. Some attempt to halt the rise in prices was imperative and the deficit in the balance of payments had to be bridged.

In the early stages, the main emphasis of postwar economic policy was on nationalisation, which was applied to the basic industries and to the more important banks, including the Bank of France. The legislative basis for the latter part of the government's programme was completed by December 1945, though it is difficult to see what major contribution nationalisation was of itself expected to make. Much more important were the wide powers of control and regulation accorded to the National Credit Council, acting in co-operation with the Bank of France and the Banking Control Commission. Of this trio, the Council was the policy-making arm of authority. Its members represented a wide range of economic, financial and government interests and included officials from the Treasury, the Ministry of Economic Affairs and the Economic Planning Commission. Its role was primarily consultative, though it was also responsible for the registration of banks and of financial houses, the opening and closing of branches and the determination of rates and commissions to be charged by commercial banks. It might also act as a tribunal of appeal (e.g. against the classification of a bank in one or other of the specified categories by the Banking Control Commission and against decisions of the Government commissioners attached to the *banques d'affaires*). The Bank of France, through its specialised services, also helped to form policy, but its more obvious functions were executive. Its task was to implement credit policy. It did this both by influencing the cash base of the commercial banks and by variation of its rediscount and advances rates. Finally, there was the Banking Control Commission, with a heavy weighting of official representatives, whose job it was to « police » the banking system by supervising its operations and by requiring the observance of certain ratios. It also served as an appeal tribunal (against certain types of decisions of the National Credit Council). It was sometimes difficult to be sure where the frontiers of responsibility of the several authorities began and ended, but an effective liaison was assured by the strategic positions held by the Governor of the Bank of France, who was *ex officio* Vice-President of the National Credit Council (and its effective chairman since its political head was rarely present) and President of the Banking Control Commission. In addition, there were

the personal contacts between the officers of each of these bodies and there was frequent consultation. Subject only to the ultimate authority of the Government, these three bodies had full power to regulate and to control credit conditions and the terms of banking business throughout France, as well as to determine within wide limits the overall character of the banking structure.

The early postwar years in France were characterised by poverty and inflation. Foods and other consumer goods were in short supply and housing constituted a major problem. Harvests were poor and prices continued to rise. Increased wage rates were granted to offset the impact of the rising cost of living, but, by pushing up costs, higher wages only added to the upward pressures on prices. The inflation was further intensified by the scale of government expenditure on reconstruction. It was obviously necessary both to raise production levels and to rebuild the capital resources of the economy as rapidly as possible. Nevertheless, the pace at which governments attempted to achieve these targets imposed severe strains on the economy. The resources available for the reconstruction of industry and the rehabilitation of agriculture were distinctly limited and there was little inclination to accept a reduction in consumption standards to make more capital available. The Government itself had therefore to find the resources, the necessary planning and coordination being carried out by the *Commissariat Général du Plan de Modernisation et d'Équipement* under the direction of M. Jean Monnet. Successive governments incurred recurrent budget deficits and the finance for these and for the current demands of industry was found by resorting both to the Bank of France and to the commercial banks, which provided credits both at short- and medium-term for the purpose. As judged by the growth in industrial production, the results of this policy were impressive. The index of production (including building) for December 1945 (base 1938 = 100) was only 62. By March 1947, industrial production was back to 1938 levels, though the prewar peak of 1929 was not to be approached until the end of 1950. Yet such progress, impressive though it was, must not be allowed to obscure the very high price that had to be paid in terms of rising costs, inflated further by upward adjustments to wages in a vain effort to absorb the impact of higher prices on the cost of living. Inflationary pressures of this kind could only be cumulative and, at some stage, it was clear that a halt would have to be called. Business was booming, but the driving force was inflationary and American aid could only provide a partial offset. Meanwhile, the banks had allowed their holdings of Treasury bills to run off in order to grant credits freely to finance both current production and the re-equipment of industry. It was not long before they were lent up and since their deposits increased rather less rapidly than their loans, resort to central bank accommodation became increasingly frequent and, indeed, after a time almost continuous. Technically, therefore, the Bank of France was in a strong position to take restrictive action, but in the early years the authorities responsible for credit policy were still feeling their way and positive measures were rather long delayed.

II.

The National Credit Council held its first meeting on February 1, 1946. The problem with which the authorities were then faced was how best to finance the recovery of the country and the very considerable demands both of the State and of private enterprise, while at the same time avoiding an expansion of credit of such a magnitude as to threaten the stability of the franc. Somehow, a proper relation had to be maintained between the current volume of production and available liquid resources. In addition, it was necessary to restrict the granting of credit for consumption purposes and to divert the resources of the banking system to projects which ranked high in the overall economic plan, such as those concerned with the production of plant and equipment basic to the reconstruction of the country. The granting of credits was to be judged not merely on the basis of accepted banking criteria, but mainly in relation to the national interest and the relevance of a

particular credit to the Government's investment and reconstruction programme.

In attempting to achieve these objectives, chief emphasis was laid initially on qualitative controls. It was also hoped that the selection of credits would of itself limit the growth in the total volume. As the basis of selection, the Government believed it would be sufficient to follow the requirements laid down in its overall economic plan, but in the early stages this plan scarcely existed in any concrete form, as the planners were themselves feeling their way. As a result, the guidance which the National Credit Council might reasonably have expected was at first only made available to them in the very vaguest terms. In these circumstances, all that the Council could do was to request the banks to avoid granting credits for purposes which were obviously inappropriate or, indeed, actively detrimental to the healthy development of the economy. Credits were not to be made available to facilitate the building up of stocks of finished goods in excess of normal levels. By financial pressure, stocks were to be forced on to the markets, thus pushing down retail prices, though this policy was not, in fact, markedly successful. Gradually, the controls became more specific and this process was materially assisted by the collection of information through the *Service Central des Risques* (1) (first set up in March 1946), supplemented where necessary by special enquiries. Subsequently, in October 1947, more detailed guidance was provided with a view to « stabilising » the volume of credit granted. This was to be achieved whenever possible by reductions in the amount of accommodation granted and by more rigorous selection. On several occasions (more especially during 1948 and 1949), individual commodities or industries were singled out for particular attention. Thus, the banks were urged to exercise great care in granting credit to finance the holding of stocks of butter, wines and alcohol, rum, wool and sheepskins, cotton, leather and leather goods. During this same period, credits used to finance the fattening of cattle were completely prohibited. Where a proportion of the production in question was normally exported (e.g. wines), special arrangements were made to ensure that adequate finance was made available for the purpose. Imported raw materials (e.g. wool and cotton) were similarly treated. Not only was there an attempt to meet the special characteristics of particular industries, but when the restrictions ceased to be necessary, they were relaxed or lifted. Meanwhile, the essential industries — those basic to the economy and all the export industries — were actively encouraged. Even so, the guidance offered within the framework of this control remained rather general in character. The qualitative controls were probably responsible for some slowing down in the growth of bank credit, but not very much more than that can be claimed for them.

Supplementing the qualitative control proper was the « prior authorisation » procedure, which was introduced by the Bank of France in January 1947. In the first instance, applications for accommodation in excess of Frs. 30 million (2) were to be submitted, together with a « dossier », for vetting by the central bank. There were two obvious weaknesses in the operation of this control. First, not all forms of bank accommodation were included. « Prior authorisation » did not apply to bank guarantees (*cautions* and *avals*), to State paper (*effets publics*), nor to commercial bills and documentary credits. The last category was excluded on the grounds that such paper was « self-liquidating ». In fact, it constituted a major loophole. Second, the Bank of France at that time lacked both the experience and the staff to provide more than a cursory supervision. Preparation of a « dossier » was supposed to provide the basis for determining the extent to which the credit was « necessary ». Thorough vetting would inevitably have entailed protracted delays and possibly because of the need for a speedy decision, very few submissions for « prior authorisation » by the Bank of France seem to have been refused. From a disciplinary point of view, the actual

(1) The functions of this service were described in some detail in the author's earlier article on « The French Deposit Banks and the *Banques d'Affaires* » in this Review, December 1954, pp. 194-195.

(2) This figure was raised to Frs. 50 million in February 1948 and to Frs. 100 million in April 1950.

preparation and submission of a « dossier » in support of a credit application was doubtless a much more potent check on excessive borrowing than the actual vetting by the Bank.

There can be little doubt that during the early postwar years far too much was expected of these qualitative controls. It may be conceded that the authorities required time to formulate a comprehensive system of quantitative controls with which to reinforce the selective techniques initially employed, but without firm action of a quantitative character it proved difficult to restrain the increasing dependence on bank credit and to ensure strict economy in the use of scarce resources. Moreover, the Bank of France was in a strong position to exercise restriction, since the commercial banks were soon lent up and were forced to rediscount with, or to borrow from, the central bank. In these circumstances, it was likely that a sharp rise in Bank rate would have forced on the banks some degree of discipline and, by requiring that higher rates be charged to bank customers, the latter would have been obliged to keep their stocks at minimum levels and to employ their own resources more economically. In addition, they would have been compelled to reconsider their more marginal applications for assistance. It is true that Bank rate was raised slightly on January 9, 1947 from 1⅝% to 1¾% for Government paper and commercial bills and to 2¼% on all other eligible paper. Rates were further increased to 2½% and 3% respectively on October 9, 1947, but in view of the degree of developing inflationary pressure, such revisions appear to have been much too limited and there was no clear break with the established policy of « cheap money ». It was the view of the authorities that no resources should be left unemployed for lack of credit. In theory, only the production of essential goods was to be encouraged, but in practice and because of the looseness of the controls, a proportion of bank lending was used to finance speculative activity, or was fed into industries catering directly for increased consumption. Some of this increase in consumption was « essential », given the low standards that had prevailed for much of the economy during the war and immediate postwar years, but, obviously, both a high rate of investment and higher levels of consumption were bound to produce bottlenecks. The achievement of higher production levels in basic industries could only be retarded and an all-round rise in prices — and wages — was inevitable. Poor harvests only accentuated strains already apparent. These were the bases of the inflation which developed steadily in France throughout 1947 and 1948 and which prompted the sterner measures of September, 1948.

III.

Meanwhile, France had made some progress towards the achievement of relative stability. To a major extent, this was a consequence of her own hard work. The level of production had increased steadily and this offset in part the growth in the monetary supply associated with the authorities' desire to maintain employment at the highest possible levels. The good harvests of wheat and potatoes in 1948 were also of great assistance, since they eased some of the upward pressure on prices and indirectly on wages (which tended to be adjusted in sympathy with the increased cost of living). In addition, vital help was provided in the form of Marshall Aid, which began to flow in April 1948. In September, a new Government under M. Queuille set about « restoring the national finances », a task attempted by so many postwar governments in France. By means of a combination of taxation measures, credit restriction and administrative economies, the Government was able to more than cover ordinary expenditure by revenue and for a full year the Treasury avoided any increase in its debt to the Bank of France. A measure of price stabilisation was also achieved, though this was by no means complete. Production continued to increase and the economy appeared to be in an advanced stage of convalescence. With more plentiful supplies of goods coming forward, it became less necessary to hedge against inflation and free market quotations for the

gold bar fell from Frs. 800,000 per kilo to round about Frs. 600,000.

As a means of maintaining relative stability, a new quantitative credit control was introduced on September 30, 1948. Indeed, some twelve months earlier, active consideration had been given to the possibility of imposing a quantitative control based either on a global credit ceiling or on a system of compulsory ratios, but it was then felt that effective measures would be difficult to implement during a period of rapidly rising prices and that the effects were likely to be too drastic. In fact, a liquid assets ratio was instituted in February 1948, but it was not intended as a credit control and was imposed by the Banking Control Commission as a means of ensuring bank solvency and as a protection to depositors. The banks were required to hold 60% of their short-term liabilities in the form of liquid assets and, for certain banks, the ratio might be raised to 70%, but liquid assets were defined most liberally and maintenance of the ratio was not particularly onerous. Much firmer action was now to be taken. The banks were « invited » as from October 1, 1948 to restrict any increase in lending to part only of the growth in new deposits, not to increase the percentage of their deposits currently being employed in loans, and not to have recourse to rediscounts at the Bank of France except within the ceilings fixed by the central bank for each institution. There was also an intensified application of selective controls, but these were no longer required to take the main burden.

The new quantitative controls took two main forms — the requirement that the banks should hold a certain amount of their resources in short-dated Government paper and the imposition of credit ceilings.

As from October 1, 1948, all banks were required to hold in Treasury paper a minimum equal to 95% of their holdings on September 30, 1948. This was the so-called *plancher* (or « floor »). In the event of any increase in deposit liabilities beyond the level as at that date, holdings of Treasury paper were to be increased to the extent of 20% of the rise in these liabilities. If there were a fall in deposits, holdings of Treasury paper might be reduced in sympathy to the extent of 80%. These arrangements were introduced in order to prevent the banks from selling government securities for the purpose of obtaining resources with which to expand credit to commerce and industry. The practice of unloading government securities had occasioned considerable anxiety during 1946 and 1947, when the reduction in commercial bank accommodation to the State had had to be offset by direct advances from the Bank of France to the Treasury, thus involving a net increase in the supply of credit to the economy. The Bank of France had then obtained a series of « gentlemen's agreements » with the commercial banks whereby they undertook to maintain their existing holdings of Treasury paper, which might be reduced only if there was a net withdrawal of deposits. These arrangements had already proved to be reasonably effective and the new regulation was therefore to a large extent a formalisation of the earlier agreements and, in fact, there was no radical change in the use made of bank funds. Furthermore, as a quantitative control, these requirements would effect no net reduction in bank credit, unless the funds transferred to the Treasury in this way were used to repay its advances from the Bank of France, or were applied in some other way in reduction of State debt. To the extent that the funds were spent by the Treasury, there could only be a reduced and lagged rate of expansion in credits granted to commerce and industry. Nor was there any provision in the regulations requiring that additional holdings of government paper, in consequence of a rise in deposits, should be acquired from the Treasury direct and it was therefore possible to obtain such paper from non-bank investors, thus releasing funds for expenditure in the private sector.

The authorities also sought to limit the growth in bank credit granted to commerce and industry by imposing *plafonds* (or « ceilings ») on commercial bank rediscounts at the Bank of France. This was not an entirely new technique in the Paris Money Market. In common with other central banks, the Bank of France had resorted from time to time to the rationing of rediscounts during periods of

THE COMPOSITION OF THE MONETARY SUPPLY. TABLE I

Frs Milliards

	Notes in Circulation	Deposits	Total Supply of Money	Gold & Foreign Exchange	Advances by Bank of France to State	Bank Credits (inc. Bank of France)	
						to State	to Commerce & Industry
1946 - December	732	625	1,357	144	517	304	308
1947 - March	761	645	1,406	144	529	317	328
June	832	687	1,519	144	399	299	375
September	871	710	1,581	144	627	296	406
December	921	758	1,679	152	633	295	490
1948 - March	779	1,050	1,829	152	656	297	587
June	823	1,050	1,873	152	616	297	675
September	911	1,151	2,062	152	666	345	742
December	993	1,175	2,168	65	763	354	870
1949 - March	1,045	1,107	2,152	65	757	368	901
June	1,116	1,116	2,282	73	773	375	976
September	1,225	1,304	2,529	115	785	432	1,083
December	1,301	1,403	2,704	154	768	420	1,219
1950 - March	1,337	1,355	2,692	172	796	406	1,191
June	1,400	1,429	2,829	226	770	432	1,266
September	1,496	1,444	2,940	426	718	424	1,348
December	1,590	1,530	3,120	467	705	431	1,355
1951 - March	1,607	1,578	3,185	515	716	442	1,383
June	1,699	1,622	3,321	493	666	462	1,517
September	1,819	1,672	3,491	463	730	499	1,609
December	1,883	1,795	3,678	279	742	513	1,905
1952 - March	1,920	1,838	3,758	212	803	571	2,002
June	1,948	1,898	3,846	216	805	587	2,025
September	2,035	1,926	3,961	283	773	638	2,095
December	2,124	2,035	4,159	236	802	626	2,271
1953 - March	2,128	2,084	4,212	216	940	649	2,183
June	2,142	2,146	4,288	210	953	654	2,273
September	2,227	2,172	4,399	206	935	659	2,328
December	2,310	2,320	4,630	225	931	702	2,518
1954 - March	2,327	2,337	4,664	259	989	697	2,459
June	2,374	2,384	4,758	282	960	704	2,542
September	2,444	2,468	4,912	308	892	737	2,677
December	2,551	2,704	5,255	394	947	768	2,880

excessive demand for credit and, prior to World War II, it had been its practice to apply such ceilings to the smaller banks operating in the Paris market in order to prevent their over-reaching themselves. Now the ceiling technique was to be used for a rather different purpose — the prevention of a *general* expansion in bank credit. Rediscount ceilings were fixed for each bank and the details are not known, only the totals being published from time to time. Initially, the total of these ceilings amounted to Frs. 186 milliards. The large banks with a network of branches were accorded a ceiling for their institution as a whole and they then allotted internal ceilings for each of their branches or, where branches were grouped, to each of their larger offices. The ceilings for banks with a localised business were determined by the respective managers of the Bank of France's own branches in the provinces, in view of the necessity to take into account the precise character of local conditions. At times when the ceilings became fully effective, it was usual for the commercial banks to establish firm ceilings for each of their customers and the latter were then obliged to operate within the ceiling assigned to them.

During the early postwar years, the use of commercial bills as a medium of finance had been completely uncontrolled and, indeed, actively encouraged by way of rediscount concessions. This policy had been favoured in the rather naive belief that being « self-liquidating » paper such bills could scarcely be inflationary. During the first nine months of 1948, the rapid increase in the discount of commercial bills at last convinced the authorities that the gap must be closed and, although such paper continued to be excluded from submissions for « prior authorisation », it was incorporated from the very first in the rediscount ceilings. Moreover, once a bank reached its rediscount ceiling, even a commercial bill carrying the very best of signatures, with a maturity of three months or less and specifically drawn to finance the movement of goods would now be refused for rediscount at the Bank of France. This represented a truly radical break with established tradition.

Although it was intended that the control should be comprehensive, not all types of paper were in fact subject to restriction within the ceiling and three categories were specifically excluded. These were the medium-term *effets de mobilisation* discounted by the *Crédit National* for the purpose of financing the re-equipment of industry; bills drawn on member institutions of the *crédit agricole* in connection with the movement of the wheat harvest; and bills drawn by the Treasury on importers (e.g. in respect of liability for customs duties). At the time, none of these items was really very large, but latterly resort to medium-term paper for re-equipment purposes was to increase quite sharply and its exemption from the ceilings was to become something of an embarrassment to the authorities.

When the ceilings were originally fixed, they were set close to the actual level of rediscounts outstanding on September 30, 1948, but where rediscounts were considered to be low for seasonal or other special reasons, allowance was made for a limited amount of expansion. It was hoped that by this means bank lending would be greatly restricted, since even a bank in receipt of new deposits would be forced to lend cautiously once its total rediscounts approached the ceiling. There was no prohibition on further lending, but as additional discounts would not now be eligible for « mobilisation » at the Bank of France such paper would become relatively illiquid and funds would be tied up until it matured. As the banks were then obliged to borrow almost continuously from the Bank of France, the dangers of illiquidity were considerable.

From the authorities' point of view, the chief difficulty in operating this control was the persistent building up of pressure against the ceilings. This was met partly by revising the ceilings upwards and partly by instituting a number of « safety valves ». Thus, from the original level of Frs. 186 milliards, the ceilings were raised to a total of about Frs. 200 milliards by the end of 1949 and further increased to approximately Frs. 250 milliards by September 1950. In October 1951, they aggregated Frs. 285 milliards, rising to almost Frs. 500 milliards by the end of that year.

The degree of elasticity required, particularly during a period of rapidly rising prices, constituted the chief weakness of the ceiling technique. Some upward revision was unavoidable under these circumstances, but which claims were legitimate and which were not? The central bank was constantly under pressure to adjust the ceilings upwards and much bilateral bargaining took place between the Bank of France and individual commercial banks. Yet the commercial banks continued to complain that the strictness of the limitations was excessive and that this form of control lacked flexibility. To a disinterested observer, there seemed to be far too much flexibility, especially in view of the number of safety valves that had been built into the mechanism. Quite apart from the upward revisions of the ceilings and the exemption of medium-term paper, there was the additional accommodation which might be made available at the discretion of the Bank of France through the open market, as well as the *avances à 30 jours* to approved banks which provided further supplementary assistance.

Bank of France intervention in the open market dates only from June, 1938, when the Bank was empowered to buy and to resell (without endorsement) short-dated government securities and such other paper as was eligible for rediscount at the Bank. As in London, it was found convenient to operate mainly through a « special buyer » and, although it does deal through other houses from time to time, the bulk of the Bank's business is put through the *Compagnie Parisienne de Réescompte*, which is virtually the official broker in the market. In this way, more or less accidental distortions of the flow of funds either in to or out of the money market can be « smoothed out », the bulk of such transactions being in Treasury bills and « acceptances » of the *Crédit National* (3). At times when the accumulated pressure of the demand for funds began to threaten the maintenance of credit ceilings, open market purchases were employed as a safety valve. Frequently, the stringency would only be temporary and there would have been no point in outright discount, which involves an irrevocable purchase and sale. Hence, the more general use of *en pension* facilities, whereby securities are sold to the Bank of France under an arrangement which permits their repurchase within 15 days, the cost to the borrower being the difference between the prices of sale and repurchase (4).

In the open market, the Bank of France can operate at its own discretion, but in securing short-term accommodation by way of *avances à 30 jours* the initiative rests with the banks. These advances are for a period of from 5 to 30 days against short-term government paper and may not exceed ceilings agreed upon between the more important banks and the Bank of France. Not all banks may claim this privilege and the agreements are restricted to about fifty banks throughout the country, including all the big Paris banks, the regional banks, and even some of the local banks. There is no formal deposit of security. When such a loan is required, a letter of request is addressed to the Bank and, if the amount required together with loans outstanding is within the agreed ceiling, the loan will be made, subject only to its full repayment on or before the expiry of the 30-day term. Within the prescribed limits, these advances, too, could be used as a « safety valve », when pressure developed against the primary credit ceilings.

Meanwhile, Bank rate, after a temporary rise on September 4 from 2½% to 3% (depending on the type of eligible paper) to 3½% and 4% respectively, had been consolidated at 3% as from September 30, 1948. This rate was to be maintained without change until June 8, 1950, when it was dropped to 2½% because of the fear of incipient depression. Yet much more potent than the actual level of Bank rate was the determination to make it effective by means of quantitative action. The major limitation was effected

(3) Drafts accepted by the *Crédit National* are drawn on it by parties to whom the State owes money (*e.g.* public works contractors), the Treasury having made appropriate provision for payment of the drafts at maturity. These transactions are not to be confused with the medium-term *effets de mobilisation*.

(4) Open market operations appear in the Bank of France Return under the heading *effets négociables achetés en France*.

through the agency of the rediscount ceilings, operated in conjunction with the several « safety valves » to relieve pressure on occasions when this built up to uncomfortable levels.

IV.

In the early stages of quantitative control and prior to the outbreak of the Korean war in June 1950, the combined action of the *plafond* (or « ceiling ») and the *plancher* (or « floor ») worked fairly well, but as soon as prices began to rise rapidly the mechanism gave evidence of strain and the « safety valves » had to be brought increasingly into play. Although world prices had already begun to move upwards before Korea, internal price stability had for the most part been maintained during the first six months of 1950, but after June the influence of the increased war demand for raw materials was quickly transmitted to domestic prices. Those sectors of the French economy dependent on imported raw materials (e.g. textiles) were obviously sensitive to movements in world prices and the impact of changes in external conditions was both immediate and direct. It was nevertheless hoped that, when lower import prices returned, the internal price structure would again move downwards in sympathy. What was less easy to foresee were the ultimate effects of large-scale rearmament expenditure, which became necessary in consequence of France's share in Western defence, to which had to be added the persistent drain on resources occasioned by the war in Indo-China. Budgetary equilibrium on current account and some progress towards covering government capital expenditure had scarcely been achieved when this new burden appeared.

Although to some extent due to the rise in import prices, much of the responsibility for the subsequent resurgence of inflation in the domestic economy must be laid at the door of weak government. The growth in the money supply was considerable. Between June 1950 and March 1952, the note issue rose by over Frs. 500 milliards and total monetary resources by over Frs. 900 milliards, the bulk of this — Frs. 875 milliards — representing an increase in bank credit. While it is true that the cost of carrying stocks, particularly of imported goods, was rising, the upward pressures were considerably reinforced by a budget deficit which was to climb to no less than Frs. 725 milliards in 1952. Moreover, with a persistent rise in the cost of living, there had been a developing pressure for higher wages. These were increased twice during 1951 and, with a lag, this also pushed up costs. Despite good harvests, farmers, too, were able to bargain for higher prices for their cereal crops and food prices rose further. The single major achievement, though it should not be dismissed lightly, was the success in raising the index of industrial production by March 1952 to 50% above 1938 levels. But whether the industrial boom was worth the price of inflation, driving the cost structure of France more and more out of alignment with those of its competitors, was very much an open question.

To what extent could credit controls assist in containing these pressures? During the months immediately following Korea, the authorities were somewhat handicapped by recent action taken to ward off recession. It may nevertheless be argued that they were rather slow to go into reverse. Indeed, by the time really drastic measures had been invoked in October 1951, the worst was almost over. There was a further upsurge of import prices towards the end of the year and this carried over into 1952, but the damage had already been done. Domestic prices had by now clearly shifted permanently to a higher level and all that could be hoped for was achievement of some degree of stability on the new basis. The global ceilings which had been imposed as from September 1948 had gradually been lifted from their original level of Frs. 186 milliards to about Frs. 285 milliards by October 1951, but it was still thought that the setting of a ceiling to rediscounts at the central bank would be sufficient to prevent the situation from getting out of hand. Policy appears to have been based on the assumption that when the rise in import prices was reversed, a disinflationary effect would be transmitted quickly to internal pri-

ces. In fact, the upward pressure on domestic prices seems to have acquired a momentum of its own and, in consequence, it proved difficult to bring them under effective control.

TABLE II

BANK OF FRANCE - WEEKLY RETURNS
(Frs. Milliards)

Last Balancing Date in	Discount Portfolio (Banks & Other Customers)	Open Market Purchases.	Advances at 5 to 30 days to approved banks
December, 1945	25.9	18.0	0.7
June, 1946	46.2	25.0	1.7
December	79.4	37.6	3.5
June, 1947	87.2	43.0	9.1
December	117.9	67.4	15.7
June, 1948	166.1	71.3	2.1
December	247.2	97.4	10.3
June, 1949	259.3	156.2	15.8
December	364.3	137.7	11.3
June, 1950	387.3	128.9	8.8
December	427.2	136.9	11.3
June, 1951	470.8	196.4	18.0
December	832.1	223.2	20.1
June, 1952	853.1	254.3	21.4
December	994.7	274.0	25.2
June, 1953	947.0	281.4	20.7
December	952.9	292.5	19.8
June, 1954	964.6	217.4	12.7
December	1,179.3	236.8	18.6

Following the fall of the second Queuille Government on July 10, 1951, there had been a long period of political uncertainty, only resolved by the installation of M. Pleven's Government on August 11. Inevitably, there was a hold-up in the formulation of policy. The new Government was plagued with difficulties. Agricultural prices had risen sharply. Over the course of the year, there had been a recurrence of the deficit in the balance of payments and the franc was weakening. Pressure developed for higher wages. The framing of the budget was more difficult than usual and it was realised that there would be a heavy deficit in 1952. Bank credits to commerce and industry were still increasing — they were to jump by nearly Frs. 300 milliards during the last quarter of 1951. Clearly, the existing credit controls required to be strengthened.

In the early days of October, the authorities went into action. Bank rate, which had been reduced to 2½% in June 1950 in order to ward off the recession that then threatened the economy was raised first to 3% on October 11, 1951 and then to 4% on November 8. But this upward revision of interest rates could not be expected to take the whole strain and the discipline imposed by means of credit ceilings and the *plancher* relating to holdings of government paper was also tightened up. Initially, it had only been necessary to bring rediscounts within the ceilings and to achieve the *plancher* at the end of each month, but when the demand for credit began to increase progressively the banks experienced great difficulty in observing both the ceiling and the *plancher* requirements, even at month-ends. Technically, the ceilings remained unbroken, but they had to be raised on several occasions in order to accommodate the increasing pressure for funds and the Bank of France was also obliged to offer additional assistance through the open market and by means of *avances à 30 jours*. During the second half of 1951, the position had begun to get out of hand. Rediscounts frequently exceeded the ceilings during the course of a month, but with assistance through the open market the banks had been able to bring their rediscounts within the ceilings at month-ends and to observe the *plancher*. With the agreement of the Treasury, the Bank of France was now obliged temporarily to relax the *plancher* requirements in order to facilitate the compression of rediscounts within the ceilings stipulated. At the same time, it continued to be necessary to make funds available, through the open market, and, by October 1951, the « tolerance » allowed in excess of the ceilings amounted to Frs. 150 milliards. It is against this background that one must view the drastic overhaul of the mechanism which then took place.

The arrangements introduced in October 1951 required, first, that the *plancher* should now be observed not merely at month-ends but also on a daily basis. In this way, the lag between the growth of deposits and their absorption in holdings of Treasury paper would be eliminated. Any bank which was not at that time meeting its *plancher* requirements was to take appropriate action to do so. New

rediscount ceilings *en principe infranchissable* and totalling approximately Frs. 500 milliards were fixed to take into account the increased demand for bank credit by commerce and industry occasioned by higher price and wage levels and in order to permit the banks to regularise their position in meeting the *plancher* requirements. Rediscount ceilings might not now be exceeded during the course of the month and the Bank of France announced that it would also limit the extent of its intervention in the money market, which was to be restricted to meeting exceptional needs. Applications for supplementary finance must be moderate in amount and would be accorded against commercial paper on an *en pension* basis only and for a limited term. Such additional borrowing was also to be restricted to 10% of the primary ceiling and accommodation granted within this secondary ceiling was subject to a penalty in the form of a rate which at that time exceeded Bank rate by 1½%. The more important banks might still borrow from the Bank of France by way of *avances à 30 jours* against Treasury bills and « acceptances » of the *Crédit National*, but these advances were already subject to ceilings, in this case as fixed by agreements between the institutions concerned and the Bank of France. The only rediscounts *sans limitation globale* now permitted were the medium-term credits issued to finance the re-equipment of industry, since this remained a leading priority. In addition, from the beginning of 1952, it was decided that credits to finance exports (initially for a term of no more than 90 days, but subsequently extended to 180 days) might be « mobilised » at the Bank of France outside the ceilings either by outright sale or *en pension*. The subsequent growth in medium-term credits suggests that this particular concession may have been used by some banks as a partial evasion of the full rigour of the controls, but no doubt the authorities scrutinised developments very closely and, on balance, felt that the encouragement thus given to priority activities was justified.

Certain changes were also made in the operation of the qualitative controls. The « prior authorisation » procedure was now extended to include the commercial bill, which had previously been exempted, but only the larger credits — in excess of Frs. 500 million in total instead of Frs. 100 million — had to be submitted to the Bank of France for its approval. In part, the upward revision of the qualifying limit for « prior authorisation » reflected the inclusion of the commercial bill, but it was also probable that with the more complete coverage given by alternative methods of credit control, « prior authorisation » by the Bank of France was now regarded as less necessary. In addition, by giving closer and more individual attention to the larger credit applications, the efficiency of the control was doubtless much improved and there was likely to be less delay in advising the Bank's decision. Credits below the limit for « prior authorisation » continued to be vetted by the banks themselves consistent with instructions issued from time to time by the Governor of the Bank of France as to the economic activities which should be encouraged or discouraged as the case might be. Thus, on December 21, 1951, the banks were advised that, from a study of the returns furnished to the Bank of France, it was clear that certain industries were still being given too much credit and that bank finance was being employed for the purpose of building up excessive stocks, often as a speculation against further rises in price. Every effort had to be made to reduce outstanding credits to these industries and applications for further accommodation must be refused. Credits to finance hire purchase were also to be reduced and a close watch was to be kept on those concerns which sought to secure additional liquid resources by requesting usances longer than were really necessary for the finance of the transactions specified in their applications.

As a result of these several modifications, the controls were now sufficiently strengthened to contain the inflationary pressure which had developed, though in the early months of 1952 the banks undoubtedly experienced some difficulty in adapting themselves to the new situation and applications for supplementary assistance were heavy. The tightening up of credit control came too late to moderate the exaggerated rise in domestic prices which followed Korea, but the intensi-

fication of control did materially assist in the achievement of relative stability at the new level.

V.

In March 1952, a new Government headed by M. Pinay came to power. Two governments had fallen in rapid succession and there was little to suggest that M. Pinay would be any more successful than his predecessors. The Treasury was faced with a heavy budget deficit and the country's foreign exchange position was serious. There was further pressure for increases in wages and the only really encouraging signs were the steady rise in industrial production and the falling trend in world prices for raw materials. On this slender basis, reinforced by a more determined credit policy, the Pinay Government proceeded to fight what might be termed a psychological battle for price stability. For a time, M. Pinay had public opinion on his side and this materially assisted him in managing a difficult Parliament. A fresh attempt was made to secure a more balanced position by reducing capital expenditure and by floating a national loan « in defence of the franc ». Despite provision for repayment on the basis of the market price for gold, this loan had only a limited success and the Government had to fall back on short-term borrowing from the banks. Drastic import restrictions were imposed and measures introduced to stimulate exports. However, the aspect of M. Pinay's policy which seized the public imagination was his attempt to reduce prices largely by Government precept and public exhortation. It may seem surprising, but to a certain extent this policy worked. As was only to be expected, its success was greatest during the first few months. Prices may not have been reduced very much but they were prevented from rising and, with the help of a good wheat harvest, the Government also managed to avoid a general wage increase.

M. Pinay was noticeably less successful in solving the balance of payments crisis. Tax relief and other measures to stimulate exports clearly failed and chief reliance had to be placed on an intensification of import restrictions. Unfortunately, the inflation of costs which had already taken place stifled exports more effectively than imports could be cut by administrative action. Pressure against the franc mounted and M. Pinay had to marshall all his resources of persuasion by continuing to emphasise that no devaluation was contemplated. Nevertheless, the deficit on the balance of payments continued to increase. For visible trade, it was Frs. 173.8 milliards in 1952 compared with Frs. 128.6 milliards in 1951.

It is something of a paradox that the fall of M. Pinay in December 1952 was in large measure due to the degree of his success. Any attempt to stabilise a price level after a long period of inflation is bound to be painful. The initial emphasis on disinflation and the prospect of lower prices brought with it a tendency to avoid commitments and to postpone purchases as long as possible. Bankruptcies and liquidations increased, though for the most part it was only certain sectors — textiles, leather goods and building — which suffered badly. Nevertheless, even a moderate amount of hardship, and in these sectors it was more than moderate, involved the Premier in a loss of prestige. He was faced with a dilemma. A really successful attack on prices required more disinflation and greater credit stringency, but this was bound to hurt and to breed opposition. A less restrictive credit policy would stimulate flagging production and employment, but the downward pressure on prices would have to be relaxed. M. Pinay decided to compromise and the credit restrictions were gently relaxed. In fact, he had very little choice. His policy depended on the support of public opinion and he was bound to fail as soon as his actions became sufficiently unpopular with a large enough section of the population.

Throughout the Pinay period, Bank rate was held at 4% and penalty rates could be applied to borrowing from the central bank beyond the ceilings. In a technical sense, the primary ceiling was held, though during the early months of 1952, the « safety valves » had had to be brought into play on a number of occasions. Latterly, credit restriction became less onerous because of the decline in prices

which diminished the necessity to seek accommodation to finance the holding of stocks. After April, there was some slackening in economic activity and there were also sectors of the economy — e.g. textiles and leather — which were depressed. The authorities felt that some relaxation was justified, in order to sustain production and employment. The ceilings themselves were maintained without revision, but there were other ways of supplementing the flow of money. There was, for example, quite a noticeable growth in medium-term loans to industry and this paper was not subject to rediscount ceilings. In addition, the State was obliged to borrow heavily from the banking system and 40% of the increase in the money supply was accounted for in this way. Further assistance could be given to the economy without breaching the primary credit ceilings by resort to open market operations and these facilities were in fact widened in order to assist the export trades. Yet the rate of increase in total money supplies had moderated. Between March and December 1952, these rose by some Frs. 400 milliards, but of this increase about Frs. 200 milliards related only to the last quarter of the year, when the hold of the Government was already weakening.

There have been several changes of government since that of M. Pinay, but over much of the period — until he succeeded M. Mendès-France as Premier — M. Faure remained Minister of Finance and this provided some continuity in policy. Initially, further advances had to be sought from the Bank of France, but as the fiscal position improved these special advances were progressively reduced. The budget deficit for 1953 was Frs. 637 milliards compared with Frs. 725 milliards for the previous year. Although government expenditure continued to exceed revenue, certain sections of the community were noticeably short of cash. These included both farmers and traders. There was a slump in the gold market — to the advantage of the Bank of France. More stable prices also forced down gold values and helped to restore a greater degree of confidence in the value of money. In September, 1953, Bank rate had been reduced from 4% to 3½% and, although the penalty rate which was applied to borrowings beyond the primary ceilings was maintained at 5½% (i.e. the penalty itself had been raised from 1½% to 2%), the Government was clearly moving away from credit restriction as a major basis of policy. Bank rate was further reduced to 3¼% in February 1954 and again to 3% in December. In addition, there was an increase both in the amount and term of credits granted by the *Crédit National* for purposes of investment. Further encouragement to investment was given when government control over the capital issues of existing companies was removed in October 1954. There had already been a considerable revival of savings and greater activity in the capital market was the result.

There can be little doubt that the economic position in France has greatly improved. Prices have remained relatively stable. Budget deficits have been progressively reduced from the post-war peak of 1952. For 1953, the deficit was Frs. 637 milliards and for 1954 Frs. 287 milliards. The index of industrial production (including building) at end-1954 was over 65% higher than for 1938. The export position is much sounder, though much of this has only been achieved by means of substantial subsidies. Because of improved export receipts and some fall in the prices of imports and industrial raw materials, the economy is much more liquid. Gold and foreign exchange balances rose to Frs. 394 milliards by the end of 1954 as compared with Frs. 225 milliards a year earlier and, over the twelve months to December 1954, total money supplies increased by Frs. 625 milliards, the larger part — Frs. 384 milliards — being contributed by the growth in deposits. Much of the overall increase — over Frs. 340 milliards — occurred in the last quarter, as a result of which the expansion in money supplies began to outrun the rate of increase in industrial production. The apparatus of credit control was little used during 1954, though it remained in readiness. Commercial bank rediscounts had been well within the primary ceiling and the penalty rate — Bank rate + 2% — ceased to be operative. Nevertheless, much of the overall improvement was illusory. Balance of payments difficulties ceased to be acute, but only

because of the scale of direct aid from the United States. It was true that the terms of trade had improved and the export position was much better, but there was no escaping the fact that the relaxation of import restrictions was greatly assisted by the extent of external assistance. The position might best be described as one of unstable equilibrium, the economy being underpinned by American aid and favourable trading conditions. If France is to be truly restored to economic health, there is much yet to be done. Fiscal reform is urgent, so that a more equitable sharing of the tax burden can be achieved. The country must learn to live within its means and to balance its budgets. Above all, there must be continued price-wage stability, combined with a determination to reduce costs through improved productive efficiency.

VI.

Finally, we must attempt an evaluation of the techniques of credit control adopted in postwar France. In the judgment of the writer, most of our attention should be focussed on the use made of rediscount ceilings, since this was the means of making Bank rate effective and thus providing the controls with some sort of bite. Nevertheless, the ceiling technique was soon found to have its limitations. So long as the pressure against the ceiling was moderate, inflation could be contained and repressed. With the assistance of built-in safety valves, it was possible to accommodate a certain amount of additional strain. Beyond this point, however, the ceiling was likely to crack and, unless the authorities were prepared to apply a positive discount policy, the only alternative was to raise the ceiling and to attempt to maintain it at its new and higher level. Once the banks began to anticipate such upward revisions, the position of the authorities became virtually untenable. For really effective action within ceilings which it was intended to hold, it therefore became imperative to penalise heavily any excess borrowing from the central bank. In the interests of « flexibility », supplementary assistance might be made available from time to time at the discretion of the authorities, but it was important that it should be limited in amount and strictly short-term in character. These were the lessons that the authorities learnt in the hard school of experience and the October 1951 arrangements represented the application of the knowledge so gained. There can be little doubt that their success in holding the ceilings thereafter owed much to the discriminating use made of interest rate policy. For full efficiency, therefore, the credit controls had to be comprehensive and complementary. Qualitative control was largely ineffective prior to the introduction of quantitative measures and the efficiency of the latter was greatly increased when combined with the vigorous application of penalty rates on excess borrowing. At the same time, no economy can be kept on an even keel by central bank action alone. A maximum contribution depends on the implementation of an appropriate and consistent fiscal and economic programme. Effective central bank action necessarily depends on the maintenance of a favourable environment and for this the government itself must accept the major responsibility.

J.S.G. Wilson

Cost Analysis and Cost Forecasting in the Bank

This paper attempts to derive cost forecasting from an articulate method of cost analysis which is applied by some large banks. The discussion is of a mathematical nature. However, it will be carried out in a literary fashion as long as the mathematical framework will not be considered essential. In the second part of the paper the whole line of reasoning will be restated in mathematical terms and will be continued into some aspects of cost forecasting.

* * *

1. — Cost analysis has two basic features: (1) distribution of direct and overhead costs to the departments and divisions of the bank, *e.g.*, Loans, Individual, Accounts, Trust (corporate, coupon paying, custody, investments, etc.), Foreign (commercial credits, outward collections, etc.), Branches, Comptroller, Bookkeeping, Tabulating, Research, Personnel, Telephone, etc., and (2) computation of the unit cost of each function of the bank (commercial loans, consumer credit, checking accounts, letters of credit, documentary collections, remittances, etc.).

(1) Cost distribution involves two steps: (a) imputation of the direct expenses of each department, and (b) distribution of overhead costs and computation of the net, or final, costs of each department. (a) The first step involves a rather simple computational procedure: for instance, the distribution to the departments of the expenses incurred for their account by a central paying office. (b) The second step involves a quite laborious computation and for this reason few institutions go into a detailed analysis of cost distribution. Indeed, each department may debit expenses to other departments so that, in general, each department is also debited expenses by other departments. This is stated by an equation for each department, which reads: « total » costs are equal to direct costs plus the expenses debited by other departments. The net, or final, costs are simply that percentage of the total costs which the department does not debit to the other departments. The difficulty of the computation arises from the fact that total costs are found by solving a system of the (linear) equations described above. This computation may require perhaps 1000 man-hours — with the aid of desk computers — for a bank with 150 departments, depending on the number of charges among the departments. Of course, the number of calculations increases more than in proportion to the number of departments. Mechanical methods of computation have been devised to cut down the amount of labor involved: one employing punched-card machines, another by the use of a large electronic digital computer.

As an illustration of the computation of total and net costs, let us consider three departments, the initial costs of which are 100, 200, and 300. The first department debits 40% and 60% of its total costs respectively to the second and third departments; the second department debits 10% of its total costs to both the others; the third department debits 20% and 30% of its total costs to the first and second departments. Denoting the total costs of the first department by x_1, etc., we write the above equations,

$$\text{Department I} \quad x_1 = 100 + 0.1\ x_2 + 0.2\ x_3$$
$$\text{Department II} \quad x_2 = 200 + 0.4\ x_1 + 0.3\ x_3$$
$$\text{Department III} \quad x_3 = 300 + 0.6\ x_1 + 0.1\ x_2$$

The reader may easily verify that the solution for the total costs is

$$x_1 = 242.35$$
$$x_2 = 443.88$$
$$x_3 = 489.80$$

The net costs are given by

Department I $(1 - 0.4 - 0.6)\ 242.35 = 0$
Department II $(1 - 0.1 - 0.1)\ 443.88 = 355.10$
Department III $(1 - 0.2 - 0.3)\ 489.80 = 244.90$

The first department, which debits all its expenses to the others, is a service department.

Department	I	II	III	IV	V
Function I	331 = 1.00 (250) + 0	(100) + 0	(150) + .33	(200) + .30	(50)
Function II	164 = 0 (250) + 1.00	(100) + 0	(150) + .27	(200) + .20	(50)
Function III	255 = 0 (250) + 0	(100) + 1.00	(150) + .40	(200) + .50	(50)

(2) The computation of the unit cost of each function is made on the basis of the net costs by breaking down the net cost of each department among the functions performed by that department, and dividing the total cost of each function, thus derived, by the level of activity of that function. Only operating departments — *e.g.* Commercial Banking, Loans, Individual Accounts, Bond, Trust, Foreign, Branches, etc. — have net costs because service departments — *e.g.* Comptroller, Bookkeeping, New Business Promotion, Research, Personnel, Purchasing, Mail, etc. — debit all their costs to the other departments. The number of operating departments — and therefore of net costs — is usually much smaller than the total number of departments — and of total costs. Furthermore, the number of functions is generally smaller than the number of operating departments. Therefore, while the estimation of the percentage of the net costs that are to be imputed to each function may require laborious time studies and other detailed analyses of the operations, the number of such ratios and the amount of work involved in the computation of unit costs are usually not large.

As an example, let us assume there are five operating departments — Loans, Consumer Credit, Individual Accounts, Branch I, Branch II — which have the following net costs for a given year: 250, 100, 150, 200, 50. We further assume that the bank has three functions: commercial loans, personal loans, checking accounts. The first, second and third departments impute all their expenses respectively to the first, second and third functions. The fourth department imputes respectively 33%, 27%, 40% to the functions; the fifth department imputes 30%, 20%, 50%. The total distribution of net costs among the functions will be given by

The total costs of the functions are 331, 164, 255. To obtain unit costs, the total costs of each function is divided by the number of operations of that function in the same period of time.

2. — The method of cost forecasting that is described here aims at deriving the relations between departmental net costs and levels of activity of the functions of the bank from the relations between the costs of these functions and departmental net costs. This is done on pp. 34, 35 in the mathematical section. In general such relationships are so complicated by scale economies, varying degree of utilization of large minimum units of some factors, limitational factors and complementarity of functions and factors, that we can only determine one point of the former relations with each observation. Many observation at different points would then give us an approximate description of these relations much in the same way as in the game of drawing a picture by connecting numbered points by lines. The counterpart to connecting points by lines in the game is found, in the analysis, in the statistical fitting of straight lines to the observed points. Unlike the analogy of the game, the statistical procedure enables us also to extrapolate the observed data, i.e. to describe the relations in regions outside the observed point. The statistical procedure is explained on p. 35.

More specifically, it is the purpose of this method of cost forecasting to derive the ratios of net costs to the level of activity of each function, and at least theoretically the whole technology associated with them, from the results of the computation of unit costs, *i.e.*

from the ratios of the total costs of the functions to net costs, at least for a certain range of levels of activity. In general the latter ratios vary together with all the levels of activity because of scale economies, limitational factors, etc. mentioned above. Consequently, also the former ratios vary, in general. The relations of these ratios to the levels of activity are approximated by fitting regression lines to the observed points by the standard statistical method of least squares.

The structure of the above relationships is given by technical conditions. Therefore, for a better understanding of the results, it may be useful to associate the ratios of net costs to levels of activity with certain techniques of production. The identification of the techniques involved may usually be made from a general knowledge of the operations of the bank. In some cases detailed operational research might be necessary. Needless to say, the larger is the technology, or set of possible techniques, and the more frequent are coexisting techniques and complementarity, the more information is needed from cost analysis for cost forecasting. Cost analysis yields more information when it is made at relatively short time intervals and when the levels of activity of the functions vary widely.

Some examples of the technical conditions determining the structure of the cost relationships may clarify this point. An example of scale economies may be found in the fact that centralized operations are usually cheaper than operations performed by the branches. Similarly, an increase in the activity of a department with respect to some functions might make possible a more efficient use of the existing facilities and consequently lower the costs of other functions performed by the department. Punched-card equipment is clearly a factor with a large minimum unit: when the volume of activity of a bank reaches the level at which it is convenient to install such equipment, this new technique will in general make possible lower unit costs. On the contrary, limitational factors — like office space, or the availability of skilled and experienced labor — may mark a region, or several regions, of activity levels with higher unit costs. Limitational factors illustrate also the possibility of more than one technique being applied to the same function at the same time. For instance, if two techniques are known, one of which is more economical under a certain set of salaries and prices but uses such large quantity of a limitational factor — of which a certain maximum amount is available — that a given level of activity cannot be reached, it may be expedient to use this technique in concurrence with the less economical one, which however uses a proportionately smaller amount of the limitational factor.

The relationships of departmental net costs to levels of activity of the functions — reconstructed from cost analyses, or « observations », over a period of several years, by the method previously explained — may be used for several purposes, among which we may mention: (1) to forecast net costs of the departments and unit costs of the functions for different levels of activity, (2) to detect variations in the efficiency of departments at present as well as in the past, corresponding to changing levels of activity.

A complication in the analysis arises from variations in salaries, prices and rentals of goods and services used by the bank. In this connection a distinction must be made between the direct and indirect effects of these variations. The direct effect is simply that change in the expenditures of the departments, which is caused by variations in salaries and prices under the assumption that after these variations the departments use the same quantities of different kinds of labor and of goods as before. Of course this is a rather restrective assumption. In fact, if more than one technique, using different proportions of kinds of labor, goods and services, may be applied to the same function, it may very well happen than an increase in salaries and prices of labor and goods (*e.g.* salaries of bookkeepers) largely used by the technique, or combination of techniques, presently applied (*e.g.* bookkeeping by manual machines) would make these techniques less economical than others (*e.g.* semi automatic accounting) which use large quantities of factors that have now become comparatively cheaper (*e.g.* punched-card equipment). As a consequence, to continue to operate on the most efficient

keel the bank would have to switch to the more economical techniques. Variations in departmental expenses caused by these technical changes are the indirect effects of the variations in salaries and prices. Both effects of these variations have to be measured in order to bare the relationships of net costs to levels of activities on which our cost forecasting is based. The mathematical framework of these interactions and a method for the measurement of direct and indirect effects will be developed on p. 36.

* * *

3. — In the mathematical discussion we make use of matrix notation for simplicity in writing. A capital letter denotes a matrix, and a small letter represents a column vector (or one-column matrix). A small letter with subscripts indicates a term of a matrix or a component of a vector.

The gross total costs of the departments, v, are given by

$$u = E\ v,$$

where u are the direct or initial costs of the departments and E is the matrix of the percentages of gross total costs debited by each department to the others,

$$E = \left[\begin{array}{cc:c} 1 & -c_{12} & -c_{1n} \\ -c_{21} & 1 & -c_{2n} \\ \hdashline -c_{n1} & -c_{n2} & 1 \end{array}\right]$$

The solution for the gross total costs, v, is of course

$$v = E^{-1}\ u.$$

E has the properties that $c_{ij} \geq 0$ and

$$1 - \sum_{i \neq j} c_{ij} \geq 0.$$

These properties ensure a solution for $v > o$. The net costs are

$$y_i = \left(1 - \sum_{i \neq j} c_{ij}\right) v_i \geq 0.$$

The equality will hold for the service departments, the inequality for the operating departments.

The cost of each function of the bank (commercial loans, checking accounts, etc.) is derived from the net costs of the departments by a linear transformation

$$z = B\ y.$$

The dimension of z is generally smaller than the dimension of y; B is usually therefore, a rectangular matrix with more columns than rows.

4. — This is just a restatement of the framework of cost analysis as it is applied by some large banks. The method of cost forecasting that will be developed here aims at deriving the matrix of the (constant or variable) ratios of y to the levels of activity of the functions of the bank, from the B-matrix observed for different sets of levels of activity at different times. In general, the B-matrix varies with the levels of activity, *i.e.* $B = B(x)$, because each department will impute different percentages of its expenses to the various functions, depending on the volumes of activity of the functions. One observation of the B-matrix presumably defines an efficient point on the « production function », at certain salaries and prices. A number of observations at different levels of activities, defining as many distinct efficient points on the « production function », help to reconstruct such efficient production function by a more or less close approximation.

The method suggested here for such interpolation is devised to permit a certain elasticity of the model, which may yield a better fit to the real relationships, and to make the most out of an usually small number of observations which often, moreover, contain errors of estimates. In fact, the observations are usually few because they are made once a year and the series studies should not go back in time so far as to include important changes in technology, defined as the set of known banking techniques. Furthermore, the B-matrix is inferred by time-studies, or estimated on the basis of experience, knowledge of services, etc. with an inevitable margin of error.

As a reasonable approximation it may be assumed that the levels of activity of the functions of the bank are independent varia-

bles (*). It is then clear that the expenses — reflecting the volumes of work — of the departments cannot vary freely. The variations in the department expenses are restricted to a subspace of at most the same dimension as the space of the functions — which generally are smaller in number. The net costs of the departments are related to the levels of activity of the functions by banking techniques. The techniques are constant vectors, because, if all factors producing a function by a certain technique are taken into account, a proportionate increase in the quantities of these factors should produce a proportionate increase in the level of activity of the function. Needless to say, varying combinations of such techniques make possible variations in the proportions among the quantities of factors. These combinations describe external economies, large minimum units of a factor, limitational factors, etc. already discussed.

(1) We now assume that the techniques used and also salaries and prices do not change. Denoting by x the levels of activity of the functions, as a first approximation we may consequently express the department net costs — which are proportionate to the volumes of work of the departments under constant salaries and prices — as linear functions of x, *i.e.*

$$y = A\,x.$$

The total costs of the functions, z, do not appear explicitly because they are simply given by the equations

$$z_i = \sum_j a_{ji}\, x_i.$$

The terms $\sum_j a_{ji}$ are, of course, the unit costs of x_i. If the A-matrices were constant, they would also be constant and this assumption would impose too strong a restriction on the analysis. Furthermore, inspection of the expressions below shows that if A is a constant such is also B. However, in most cases B is a variable. As a better approximation, therefore, A may be expressed as a linear function of x, because the combination of techniques used will depend on the levels of activity.

We then have,

$$z = B(x)y,\ y = A(x)x,\ z_i = \sum_j a_{ji}(x)x_i.$$

Therefore,

$$z = B\,A\,x = C\,x, \text{ and } B\,A = C,$$

where

$$C = \begin{bmatrix} \sum_j a_{j1} & 0 & 0 \\ 0 & \sum_j a_{j2} & 0 \\ 0 & 0 & \sum_j a_{jn} \end{bmatrix} = \begin{bmatrix} z_1 \\ \hline x_1 \end{bmatrix}$$

We want to find A. It is possible to solve for A only if the expression $BA = C$ provides a number of terms in A. This is the case in general only if these matrices are non-singular, that is if costs of the departments are summed in as many groups as are the functions of the bank. The criterion followed in this grouping depends on the particular features and purposes of the analysis. For example, costs of departments which are to be more fully analyzed may not be added together, or a geographical criterion may be used in grouping, etc. This is, of course, a severe limitation on the analysis. However, it may be partially offset by an adequate criterion in grouping. Using the same notation with a bar to denote the above terms after this transformation, the aggregation of the costs of three departments — for instance — will be clearly given by

$$\bar{y}_i = y_r + y_s + y_t,$$

$$\bar{b}_i = \frac{b_r\, y_r + b_s\, y_s + b_t\, y_t}{y_r + y_s + y_t},$$

(*) Actually they partially depend on past expenses for building up the business (on advertising, public relations, etc.). In a more refined analysis, such expenses should be treated as independent variables; the relationships between past expenses and present levels of activity would be given by market conditions. The theoretical framework is rather simple. However, its applications represent a significant extension of the scope of the analysis, for they involve (1) identification of these expenses, and (2) market analysis.

$\bar{b}_i$ being the i^{th} column of the matrix $\bar{B}'$ which multiplies $\bar{y}_i$. Consequently,

$$z = By = \overline{By},\ \bar{y} = \bar{A}\,x, \quad z_j = \sum_j \bar{a}_{ij}\,x_j,$$

and

$$\bar{A} = \bar{B}^{-1}\,C = \bar{B}^{-1}\left[\frac{z_i}{x_i}\right].$$

The computation of the inverse of $\bar{B}$ will be much simpler than the computation of the inverse of E — for the solution for the total costs — because the size of $\bar{B}$ is much smaller. $\bar{A}$ will have to be computed for each observation.

To find a statistical approximation to $\bar{A}\,(x)$ — based on the assumption of random deviations, which seems to be reasonable — a regression line of each term of $\bar{A}$ on x is computed by the method of least squares. These calculations may be facilited by choosing the x_i on which each term of $\bar{A}$ may reasonably depend, not only to save labor, but also to obtain a better fit, because the reliability of the results depends on the number of degrees of freedom, equal to the number of observations minus the number of regression coefficients. In case of uncertainty as to the x_i to which a particular term of A would be related, it might be expedient to compute a regression equation of this term and different sets of x_i, and to compare the sets of regression coefficients thus obtained. The result for any period of constant techniques will be of the form

$$\bar{A}\,(x) = \bar{\bar{A}}_0 + \bar{\bar{A}}_1\,x_1 + \bar{\bar{A}}_2\,x_2 + \ldots + \bar{\bar{A}}_n\,x_n,$$

where $\bar{\bar{A}}$ are matrices of rank equal to or smaller than $\bar{A}$. Standard tests may be applied, determining the level of probability at which the coefficients of $\bar{A}\,(x)$ are significant.

$\bar{A}\,(x)$ gives a forecast of the costs of the various offices and groups of offices and of the costs of the functions for any level of activity of the bank, at least within a certain range. However, it does not give a forecast of the cost of a single department if this cost was summed to others for the computation. If this forecast is required, it may be roughly obtained by supplementing the information of $\bar{A}\,(x)$ with a statistical regression line of the costs of the departments in the group under consideration, y, on the functions of the bank, x. A more rigorous procedure, on the other hand, would be to repeat the computation for $\bar{A}$, regrouping the departments in order to isolate the ones for each there is a specific interest. Obviously, if the computations were repeated once or twice, the whole original matrix $A\,(x)$ could be reconstructed.

(2) The expenses of a department may vary because the techniques used and also the salaries and prices change, beside levels of activities. If at any time the techniques — or methods of work — of the bank undergo important changes, for example because the technology changes, the statistical applications should be made, separately, for the periods before and after these changes. A comparison of the results for the two periods may help in determining the effects of technical changes on costs.

Changes in salaries and prices, if they are large and not proportionate, may be expected to make some unused or little used techniques become more economical than others, bringing about a shift in the techniques applied. Therefore, these changes, beside affecting the costs directly, because salaries and prices form the costs, may have an indirect effect on costs by modifying the proportions of techniques applied. As we pointed out, for instance, if salaries of clerical workers should increase by a large percentage, it might become economical to use new methods of work, substituting mechanical equipment with semi-skilled operators for skilled bookkeepers, tellers, etc. in some departments.

For cost analysis it is essential, of course, to distinguish between variations in net costs caused by changes in levels of activity and by changes in salaries and prices. If salaries and prices changes proportionately, net costs vary in the same proportion, *coeteris paribus*. However, generally in the computation of net costs changes in initial costs caused by variations in salaries and prices are to be kept

separate. We write the relationship of initial costs to total costs as follows:

$$u = u' + u'' = E\,v = E(v' + v'')$$
$$u' = E\,v',\ u'' = E\,v'',$$

where the double-primed letters represent the direct effects of changes in salaries and prices on costs with respect to a point of time taken as a basis, $t = O$, and the primed letters are the difference between costs and the direct effects. The solution for total costs is

$$v = E^{-1}\,u,\ v' = E^{-1}\,u',\ v'' = E^{-1}\,u''.$$

Once E^{-1} has been calculated, not much labor is involved in finding v' and v'', beside v. Net costs are then given by the simple expressions

$$y_j = \left(1 - \sum_{i \neq j} c_{ij}\right) v_j \geq O$$

$$y'_j = \left(1 - \sum_{i \neq j} c_{ij}\right) v'_j \geq O$$

$$y''_j = \left(1 - \sum_{i \neq j} c_{ij}\right) v''_j \geq O.$$

The statistical relationships $A\,(x)$ are found between y' and x, *i.e.* between net costs after the direct effects of variations in salaries and prices have been eliminated, and levels of activity.

If large indirect effects of variations in salaries and prices — *i.e.* technical changes — are present any time, they should be treated like technical changes from any other cause, and the statistical applications will be made for the periods before and after the changes, as it was previously explained.

Pietro Castiglioni

Invalidity, Old-age and Survivors' Compulsory Insurance in Italy (*)

Historical outline: from the principle of «insurance» to that of «social security».

1. — The first attempt in Italy to implement on a national scale the protection of workers against the « risks » of invalidity and old age goes back to 1898, when the « Workers' National Invalidity and Old Age Fund » (« Cassa Nazionale per l'invalidità e vecchiaia degli operai ») was set up on a purely *voluntary* basis and with strictly « insurance » criteria. Members were not restricted as regards the amount contributed or the time at which they were paid. On reaching the age of 60, or 55 in the case of women, or if they became unfit, they drew a pension corresponding to the capital accumulated, and in addition a contribution from the State proportionate to the capital but subject to certain upper limits.

The failure of this experiment (1) and conditions after the first world war made it essential to adopt a more advanced solution (2). In 1919 the following measures were introduced: *compulsory* insurance of all employees (workers and white collar classes); sharing of the contributions on a basis of equal assessment between employers and employees; contributions to be according to agreed wage group; the raising of the age for retirement to 65 for all insured persons. The right to pension was granted only when contributions had been effected over a minimum period; and the amount of the pensions was adjusted to the size of the contribution, plus a flat rate sum borne by the State. The « National Social Insurance Fund » (Cassa Nazionale delle Assicurazioni sociali) was given the job of administering these pensions. This was subsequently changed to « National Social Security Institute » (*Istituto Nazionale per la Previdenza Sociale*), its present title.

The system adopted to determine the scale of contributions was that of capitalisation on the basis of an average steady premium.

These new measures recognised the workers' *right* to social security although the arrangements themselves still savoured strongly of insurance criteria, and the raising of the money to finance them ceased to be a problem of pure mutual aid and to concern only the working class, which was exposed to insurance risks. It now became a social question affecting the whole productive population, and, to a lesser extent, the whole nation which intervened via the State.

Between 1919 and 1939 there were no modifications worthy of note (3); but with the passage of time the benefits received became increasingly absurd, since contributions, still linked to 1919 wage levels, were too low and indeed quite unrealistic. In 1939 insurance was reformed (4) but the revision did not undermine the basic technical criteria followed in earlier legislation. Bearing current rates of remuneration in mind, the new scheme worked out new classes of basic contributions, distinguishing between workers and white col-

(*) The system of compulsory insurance here considered applies in the main to employees and workers of private firms. Thus both civil servants and employees of public corporations whose social security systems have been officially recognized as replacing compulsory insurance are excluded.

Tenant farmers and sharecroppers are not yet insured.

(1) From 1898 to 1920 the « Fund » had in all hardly 700,000 members on its books.

(2) In Decree Law No. 603 of 21 April 1919 (which came into force 1 July 1920). 1917 had seen the first application of the principle of compulsory insurance to the personnel of auxiliary defence establishments.

(3) Apart from a few slight alterations in 1928 and a recasting the whole of compulsory insurance in 1935.

(4) In Decree Law No. 636 of April 1939, which was transformed, with slight modifications, into Law No. 1272 of 2 July 1939.

lar employees and between the pensions accruing to them. The new contributions were calculated in such a way as to make possible not only higher benefits but also the introduction of pensions to survivors, and the tapering off at a later date of the State contribution. The right to a pension was made dependent on a minimum *period* of insurance coverage and on a minimum *amount* of contributions (5) which varied according to grading (worker or white collar employee) and to sex. The age for pensioning off was reduced to 60 for men and 55 for women and a distinction was made between the sexes as regards the regulations governing the accumulation of pension. These measures were put into effect gradually (6), since it was desired as a first step to build up sufficiently strong reserves and avoid upsetting the system of « capitalisation based on an average steady premium ».

The 1939 reform thus paved the way for an improvement in future benefits, but, as regards the obligation to contribute, it marked a step back from the 1919 approach since the gradual elimination of the State's contribution would mean the loss of support from the nation in making available financial resources.

The inflation arising out of the second world war rapidly cancelled the advantages which the 1939 law should have brought and as early as 1943 made it necessary to increase pensions by 25%. The necessary funds were raised — in accordance with the principles which had hitherto prevailed in insurance — by an appropriate increase in the average general premium. Nevertheless it is worth noting that this was the first time there had been any departure from the principle of pure insurance and the beginning of the acceptance of the principle whereby payments should be linked to real values, fluctuating with variations in the cost of living. And in effect the 25% increase was granted not only in the case of future pensions (due after the coming into force of the law) but also to pensions which were already being drawn when the law came into force.

Immediately after the war, as the fall in the value of the lira grew more abrupt, the principle of the « payment in real values » was destined to be applied with increasing frequency, not only in the case of the various revaluations of pensions, but also of guarantees of a minimum payment (7). The natural consequence of this principle was the dropping of capitalisation as a system for finding the finance (8) and consequently the intervention on a growing scale of the community. This brings us to the law of April 4, 1952 on the « Revision of compulsory insurance for invalidity, old age and survivors » (« *Riordinamento dell'assicurazione obbligatoria invalidità, vecchiaia e superstiti* »), which affirmed with greater force the principle of cooperation by the nation as a whole and gave *de facto* recognition to the change-over from *insurance to social security*.

The war and post-war crisis in Social Insurance.

2. — Insurance for invalidity, old age and survivors was particularly badly hit by the inflation. This crisis played a disturbingly important part in the shrinkage of fixed incomes and the proletarianisation of the middle classes. The phenomenon is worth a detailed analysis from several angles and because the 1944-52 experiment allows us to stress the insufficiency of the Act of 1952 in the event of new inflations.

The historical data of Table I covering the period between 1920 and 1953 may help to

(5) This favoured the more highly paid workers who paid their contributions in the top gradings and were thus the first to reach the necessary amount.

(6) Thus the age for pensioning off was reduced by stages over five years. Reversion was allowed only in the case of pensions to survivors of insured persons paid out after 31 December 1944 and in those of survivors of pensioners retired after that date. A different policy was adopted in the case of survivors of pensioners retired between 1.1.39 and 31.12.44. They were given a lump sum payment (equal to one year's pension).

(7) In the series of legislative measures passed between 1945 and 1952.

(8) It would in any case have been impossible to maintain this system owing to the excessive burden involved in revaluing the reserves. Nevertheless, capitalisation, though abolished by the increases granted from 1945 on and by the adjustment of scales in Law No. 218 of 4 April 1952, remained in force for the pension part defined by that law as « basic pension » which, *mutatis mutandis*, is at bottom that accruing on the basis of the legislation passed up to 1943.

illustrate the situation at various times in the field of social insurance during the critical wartime and post war years.

of a pension were only a handful, the problem of the low rate of benefits, however serious for the people directly concerned, did not

TABLE I

COMPULSORY INSURANCE PENSIONS AND AVERAGE AMOUNTS RECEIVED PER PERSON AT THE END OF EACH YEAR (a)

Year	Total number of pensions	Number of pensions as % of population at the time	Average amount received per year per person			Average daily amount in 1953 lire (d)	
			Lire at current value	As % of worker's annual earnings		Lire (e)	Index numbers 1937 = 100
				Industry (b)	Agriculture (c)		
1920	23,264	0.06	118	3.36	6.57	23	22
1925	75,576	0.19	251	5.38	11.13	35	34
1930	250,767	0.51	662	14.83	33.06	104	100
1935	387,926	0.91	780	22.17	50.70	153	147
1936	420,873	0.98	786	22.50	46.94	144	138
1937	456,726	1.05	791	21.68	42.11	132	126
1938	493,117	1.13	795	20.89	40.31	123	119
1939	572,545	1.29	762	18.24	36.15	113	108
1940	643,009	1.44	788	15.84	33.83	100	96
1941	696,527	1.55	822	15.36	29.22	90	86
1942	761,865	1.69	865	14.15	26.71	82	78
1943	854,856	1.88	1,090	14.58	21.16	62	59
1944	945,721	2.08	1,137	9.29	11.45	15	14
1945	1,007,729	2.20	4,339	17.94	19.48	28	26
1946	1,112,324	2.41	13,700	21.27	32.63	75	72
1947	1,290,056	2.83	36,322	21.28	46.35	123	119
1948	1,474,251	3.21	42,015	18.11	35.41	134	128
1949	1.651,896	3.58	49,720	20.46	39.79	157	150
1950	1,808,746	3.89	50,645	20.03	40.20	162	155
1951	1,940,070	4.15	50,133	17.89	38.70	146	140
1952	2,077,356	4.42	80,319	27.23	59.88	224	215
1953	2,321,642	4.92	82,802	27.48	58.33	227	218

(a) Including optional insurance. Holders of both a compulsory and an optional pension are counted only once.

(b) Annual earnings calculated on the basis of average remuneration ascertained by INAIL (National Labour Accidents Insurance Institute) and a working year of 41 weeks (cf. note 24).

(c) Annual earnings calculated on the basis of the remuneration of land workers over the relevant years. The figure used is that for adult males (cf. Italian Statistical Annual for 1953, table 469) assuming a working year of 170 days.

(d) The coefficients used for recalculating the current lire into 1953 lire are based on the cost of living index.

(e) The following average prices of major foodstuffs in 1953 will help in visualising the average daily benefits: 1 kilogramme of bread, 122 lire; 1 kilogramme of spaghetti, 154 lire; 1 kilogramme of meat, 896 lire; 1 egg, 30 lire; 1 litre of milk, 78 lire; 1 litre of oil, 486 lire; 1 kilogramme of sugar, 263 lire; 1 kilogramme of fresh fruit, 287 lire (« Monthly Statistical Bulletin », February 1954).

As will be seen from Table I, the benefits received by insured persons when compulsory insurance was first introduced were quite insignificant (9). Yet, so long as those in receipt

necessarily give grounds for concern to the community as a whole. However, as the number of pensioners continuously increased (cf. column 1 of Table 1), the question took on a more marked social colour. At the time social insurance was adopted, the financial plans had intended that the gap between benefits and remuneration should gradually

(9) In 1925 the average pensions was barely 5% of the average earnings of an industrial worker and provided a daily available sum of L. 35 expressed in purchasing power of 1953, equivalent to a motorbus fare.

lessen as the contributionary period increased. However, this expectation soon turned out to be unfounded. In 1930 the real value of the benefit was hardly sufficient to cover the cost of even a worker's daily consumption of bread. Subsequently, though in the biennium 1935-36, the pensions had risen to higher ratios of the wages paid, they were still very low in real purchasing value (10). This was the consequence of having based the actuarial scheme on the unrealistic assumption of monetary stability. In fact, as we have already noted, the classes of basic contribution corresponded to the wage situation in 1919. As a result of the variations in nominal wage levels, insured persons, while almost all included in the top grading of contributions (over 60 lire a week), were paying extremely low contributions (since these were pegged to 1919 money wages) and therefore drew pensions which were ridiculously small in relation to real wages and the cost of living.

As a result, the authorities were forced, in 1939, to revise the rates of contribution and to adjust them to current wages. But this reform, too, was based on the assumption that the purchasing power of the currency was constant. Had that been so the disparity between pensions and remuneration would have been gradually reduced. As it was, with the outbreak of the war and the spread of inflation, the estimate once again turned out to be wrong and the real value of the benefits rapidly diminished. By 1943, people in receipt of a pension numbered about 850,000 and, on an average, they were drawing less than 15% of the average industrial wage levels, while wage levels were again tending to rise above the upper limit of the top grading of contributors. In 1943 steps were taken to increase existing and future pensions by 25% and contributions by 50% in order to bring up to their proper level the reserve funds and to buttress, once again, the capitalisation system. But these benefits were rapidly cancelled by the soaring inflation and, in 1944, the real value of benefit received reached a record low (15 lire a day in terms of 1953 purchasing power, i.e. about 150 grammes of bread!). The number of pensioners was not far short of a million thus facing the community with an extremely grave problem.

1945 saw the first of a series of measures (which were to be repeated up till 1952) designed to improve the real value of the benefits, the cost of the increases over 1943 being met by the technical distribution system. As a result of these measures (cfr. footnote 11) by 31 December 1950, the average individual value of pensions had risen to 162 lire a day (in terms of 1953 purchasing power).

In 1951, owing to the gradual elimination (by death) of pensions carrying a « bread indemnity » of average steady measure and their replacement by others (of more recent date in which this allowance was related to the number of children), the value of the pensions suffered a certain decline(146 lire a day in terms of 1953 purchasing power) while the number of pensioners was now approaching 2 million, i.e. more than 4% of the present population.

By and large, the main features of the Italian experiment in social insurance from the beginning of the second world war to the 1952 reform are:

(a) the heavy sacrifices suffered by insured persons owing to the devaluation of the lira. Once again, in the struggle for the sharing of losses and profits caused by inflation, their interests were lost of sight. The pensioners' sufferings, however deplorable from the social and moral point of view, were a positive factor in stabilising the currency. In periods when there was an acute tendency for prices to rise, especially immediately after the war and to a lesser extent in the early stages of the Korean conflict, the destruction or the curtailment of the real purchasing power of pensioners and other fixed income categories was one of the factors which held inflation in check. The history of the stabilisation of the lira is, unfortunately, also the story fo the « injustices » suffered by the pensioners.

(b) A growing degree of administrative confusion, owing to the overlapping of addi-

(10) And they lost still further in real value, as can be seen by looking over the last column of Table I.

tional payments, allowances and special bonuses. Every benefit paid out ultimately contained a number of strata, such as a so called *basic pension*, a *supplementary payment*, a *bread indemnity allowance*, *temporary emergency allocation* and *extraordinary emergency allocation* (11).

The 1952 reform.

3. — The 1952 law aimed to revise the arrangements in this whole complex field and was set out to solve the following problems (12):

(a) to simplify the administrative procedure by replacing the allowances which had been grafted on to the basic pension by a single allowance which would enable pensions to be brought into line with the cost of living;

(b) to do away with the levelling out of pensions (13) and re-introduce differentiation according to each individual's contribution, while retaining certain statutory minima.

To attain these aims, it was decided to take as a point of departure the 1943 conditions, i.e. to calculate the « basic pension » in accordance with the legal rules in force at that time and to multiply the figure obtained by 45 (14). Of the resulting figure, 1/45 would form the « basic part » (*pensione base*) (which would correspond to the capitalisation system) and the remainder, the « readjustment aliquot part » (*quota d'adeguamento*) to be charged to the distribution management, which took care of all the increases granted since 1945.

Other results attained by the 1952 law were:

(c) to bring contributions into line with real wages. In this connection, as for the « readjustment aliquot part », the costs of the employers' and employees' contributions were calculated as percentages of earnings. It was also stated that the State should make a contribution towards the cost entailed by the benefits;

(d) to introduce a new series of regulations governing the right to pension. This new procedure involved the abolition of the terms of contribution giving right to a pension laid down in the 1939 law and marked a return to terms on the lines of the 1920 law (15). The right to pension was thus conceded to insured persons after a period of uninterrupted contributions of 15 and 5 years in respect of old age and invalidity respectively. The aim of this move was to restrict the number of beneficiaries to those who had given the insurance the necessary financial support.

This point, the retention of the capitalisation system in the limited field of the administration of the so-called « basic quota of the pension » and particularly the presumption of money stability are the chief remains of the old approach, prior to the act of 1952.

Thus the new law has not provided an efficient safeguard against the dangers of inflation. We shall refer further on to the

(11) To make the picture clearer, the following breakdown of each pension in 1951 may be worth quoting:

— *basic pension*, equal on an average to 2.5% of the total value of the pension, and determined on the basis of 1943 regulations;

— *supplementary payment*, equal on an average to 18% of the total value of the pension;

— *bread indemnity allowance*, equal on an average to 16.3% of the total value;

— *temporary emergency allocation*, equal on an average to 43.5% fo the total value of the pension;

— *extraordinary emergency allocation*, equal to 19.7% of the total value of the pension.

(12) Cf. the Report on the Draft Law on « Revision of Compulsory Insurance for Invalidity, Old Age and Survivors » (« *Riordinamento dell'Assicurazione Obbligatoria Invalidità Vecchiaia e Superstiti* »).

(13) The various payments and allowances granted from 1945 to 1951 did not depend on the amount of the individual contribution but on the age and sex of the pensioner, the type of pension, or, in the case of the cost of living allowance, on the pensioner's family responsibilities.

(14) That being the figure arrived at for the increase in the cost of living between 1943 and the date at which the draft measure was tabled. The adjustement at the ratio of 1 to 45 was made after the unification of the laws on pensions to workers and employees. On the other hand, the Act of 1952 guaranties the maintenance of certain minima amounts below which pensions may not fall.

(15) The 1939 law required also the payment of a minimum *amount* in contributions, whereas the 1919-20 law called only for a minimum *number* of contributions.

future (16) amount of pensions under the several contributionary hypotheses and to their ratios to remunerations. It should, however, be stressed that the percentage ratios foreseen will assure the stable purchasing power of the pensions, so long as the normal remunerations remain within the limit of the highest class as established by the Act of 1952. But should normal remunerations exceed the minimum level of the highest class, the percentage will diminish all the more rapidly the more accentuated the increase in the nominal value of the aforesaid remunerations will be as compared to the limit above referred to. Therefore, in the hypothesis of a serious inflationary process, not only would the pensions already paid be strongly reduced, but also the future ones.

Considered from this point of view, the Act of 1952 can only be regarded as a step — even if an important one — towards a radical solution which is still far off.

But, apart from the aspects above noted, the Act of 1952 introduced very important innovations both by extending the benefits to pensioners and survivors, and by introducing a substantial State's contribution. The nature and the measures of these larger benefits will be defined further on. As to the State's contribution, it is a feature that deserves more especially to be underlined.

On 31 December 1952, the annual cost of compulsory pensions had risen to 168,000 million lire; by 31 December, 1953 the figure was 189,000 million. This burden is bound to grow heavier as the number of pensioners swells; how far this will go is hard to say since adequate estimates of the future number of pensioners are not available. In 1947 an estimate by the National Institute of Social Security (17) forecast a total of 2,521,000 by 1955; 3,179,000 by 1960; 3,721,000 by 1965 and 4,139,000 by 1970. On this assumption, if the average annual amount of compulsory pensions were to remain unchanged, the cost would be 214,000 million lire in 1955; 270,000 million in 1960; 316,000 million in 1965 and 351,000 in 1970. The real costs however will probably be lower than these forecasts, since the 1952 law tightened up the conditions for obtaining a pension. All the same, the cost will go up steadly over the next twenty years.

As things stand, we are not in a position to say anything about the likelihood of the national economy standing up to the strain without serious repercussions or about the means which may be devised to raise the money. But certain data may clarify the position. Table II shows the percentage of the Italian national income absorbed each year (in a few significant years from 1936 to 1953) by compulsory pensions.

TABLE II

EXPENSES FOR COMPULSORY INSURANCE PENSIONS AND NATIONAL INCOME IN ITALY

(milliards of current lire)

Years	Expenses for compulsory insurance pensions (a)	National Income (1) (b)	Ratio a : b x 100
1936	0,331	90	0.367
1937	0,361	100	0.361
1938	0.392	115	0.34
1940	0,507	122	0.41
1947	46,857	5,600	0.84
1948	61,941	6,706	0.92
1949	82,132	7,037	1.02
1950	91,604	7,643	1.20
1951	97,261	8,799	1.10
1952	168,527	9,221	1.83
1953	189,237	9,953	1.90

(1) Net national income.

The pressure of social security (i.e. only compulsory pensions for invalidity, old age and survivors) on Italy's resources has varied

(16) The Act of 1952 has led to some immediate improvements, which though modest are far from negligible. Thus the average annual pension has risen in the period from 1951 to 1952 from Lire 50,133 to Lire 80,319, *i. e.* from 17.9% of the average annual earnings of a worker in industry to 27.23%. Nevertheless, in 1952 the average daily pension amounted to only 224 lire (cf. Table I).

The average annual earnings of an industrial worker are taken as being the average daily remuneration as ascertained by I.N.A.I.L. (« National Labour Accidents Insurance Institute », *Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro*), which assumes an average working year of 41 weeks.

(17) Cf. National Social Security Institute (« *Istituto Nazionale per la Previdenza Sociale* »), « Bimonthly Statistical Bulletin », 1947, No. 3, Table XX.

with changes in both the legislation and in the size of the national income. It can be said, however, that pressure has been constantly on the increase. From 1936 to 1940 it was 0.36-0.41% of the national income. After the war it rose steadily from 0.84% in 1947 to 1.90% in 1953.

But in addition to the incidence of social security as a whole on the national income, it is also essential to bear in mind the size of the State's contribution (to compulsory social insurance) which weights heavily on public finance. Table III shows, together with the data regarding benefits paid out, the extent of this contribution for 1952: 54,717 million lire.

TABLE III

NATIONAL SOCIAL SECURITY INSTITUTE (*): RECEIPTS AND EXPENDITURES IN THE FINANCIAL YEAR 1952

(millions of lire)

	Basic Management (capitalisation system)	Management of Equalisation Fund (for distribution)	Total
Receipts:			
Contributions . . .	6,271	128,545	134,816
Charged to the State	192	54,717	54,909
Interest payments .	3,451	—	3,451
Sundry	558	5,211	5,764
Total Receipts . .	10,471	188,473	198,944
Expenditures:			
Pensions and indemnities	2,800	168.199	170,999
Prevention and treatment of invalidity	35	816	851
Overhead expenses .	409	8,949	9,358
Payments to the Reserves	6,352	5,486	11,838
Sundry	875	2.104	2,979
Total Expenditures	10,471	185,554	196,025
Surplus of the year .	—	2,919	2,919

(*) *Istituto Nazionale per la Previdenza Sociale (I.N.P.S.).*

The real problem of Italian social insurance arises from the fact that the « social insurance budget », unlike that of certain other countries, already shows a grave deficit and that this deficit has to be met by the State. In 1953, 61,110 million lire out of 189,000 millions devoted to compulsory pensions (i.e. 32.5% of the total) had to be provided by the State. In future, the burden falling on the State is destined to involve a higher rate of expenditure, in proportion to the annual increase in compulsory pensions. In 1955 it will probably be about 69,000 million; in 1960, 87,000 million; 103,000 million in 1965 and 114,000 million in 1970 (18).

The possibility of avoiding this burden weighing too heavily on our budget depends on how quickly we can speed up the rate at which new sources of income are made available, and on the extent of the beneficial repercussions of a wider measure of social protection on the country's productivity and on its capacity to contribute. If, however, this strain proves to be unavoidable, social insurance would undoubtedly have to be regarded as one of the factors responsible for the rigidity of Italian public finance and would at a certain point develop into an inflationary force.

The technical features of the 1952 Act.

4. — *Extension of the obligation to insure.* - Under the 1952 law, insurance is compulsory for workers from the age of 14 upwards who are gainfully employed on national territory. The exceptions to this rule are: (a) tenant farmers and sharecroppers; (b) some other categories who come within other social security schemes: civil servants (both of the Government and local authorities), and employees of concerns and corporations whose social security systems have been officially recognised as replacing compulsory insurance (the main category involved is that of public corporation employees). Compulsory insurance, then, applies in the main to workers and employees of private firms.

Insured workers are not kept track of individually through the various stages of their insurance career and in consequence the size of the insured population is a matter of guess

(18) According to fuller and more detailed forecasts the cost to the State will probably amount to 57,000 million in 1955; 83,000 million in 1960; 115,000 million in 1965 and 150,000 million in 1970. Cf. GUIDO MIKELLI, *The new law on the reform of compulsory insurance pensions for invalidity, old age and survivors*, in « Rassegna di Statistiche del Lavoro », March-April, number II, 1952, page 152.

work. A recent estimate covering the three years 1949 to 1951 gave the following results:

TABLE IV

PERSONS COMPULSORILY INSURED FOR INVALIDITY, OLD AGE AND SURVIVORS

Branch of economic activity	Insured (in thousands)			As a % of working population (a)		
	Men	Women	Total	Men	Women	Total
Non agricultural (b) . . .	4,921	1,202	6,123	58	42	54
Agricultural . . .	1,330	635	1,965	22	32	24
Total . . .	6,251	1,837	8,088	43	38	42

(a) As at 4 November 1951. Provisional census data. Cf. Italian Statistical Annual 1952, Table 21.
(b) Including office staff of agricultural estates.

The percentage of insured persons, in terms of the working population, was therefore 42% (8.088 million out of 19.5 million). The percentage is as high as 54% if only the non agricultural workers (6.123 million) are included, whereas it sinks to below 24% for the agricultural sector (1.965 million) owing to the exclusion of tenant farmers and share-croppers from insurance.

5. — *Insurance contributions and the State's subsidy*. - Contributions, as fixed by the 1952 law, are composed of two separate parts:

(a) the « basic part », which is scaled to specific categories of earnings and is borne by the employer alone;

(b) the « equalisation fund part » or « readjustment aliquot part » (i.e. a complementary contribution) which is proportionate to the effective earnings of the individual workers (starting from a daily minimum wage of 400 lire) which is borne 2/3 by the employer and 1/3 by the workers; this part nowadays represents the major part of the contribution.

For example, in the case of a skilled engineering worker with a weekly wage of 7,284 lire a contribution of 13 lire a week is paid (by the employer) for the basic part (0.18% of his wages) and 656 lire for the complementary contributions (9% of his wages, of which 1/3 is paid by the worker).

The financial subsidy by the State falls under various headings:

(a) a flat rate payment of 100 lire a month per pensioner;

(b) 25% of the « equilisation fund part » of the pensions;

(c) the State bears the heavier share of the cost of bringing up to the statutory levels those pensions which, even after equalisation, would still be under the minima laid down by the law.

6. — *Insurance benefits*. - The benefits consist of (a) (direct) pensions for invalidity and old age to insured people; (b) survivors' pensions (indirect) or (when the conditions for reversion have not been fulfilled) a lump sum payment to the survivors of the insured persons of pensioners; (c) health benefits for the prevention and cure of invalidity.

Direct pensions consist of two parts:

(a) the « *basic pension* », calculated in relation to the basic contributions paid (19) plus a tenth of the pension itself for each dependent child (under 18) plus a flat rate payment of 100 lire from the State;

(b) « *equalisation (or readjustment) part* » equal to 44 times the basic pension.

The total amount (excluding additions for the children) cannot fall below the statutory limits nor exceed 80% of the average earnings subject to contribution over the last five years period of payments.

(19) The percentages governing the rate at which contributions shall rank for pension are as follows:

	Men	*Women*
On the first 1,500 lire contributed .	45%	33%
On subsequent sums of 1,500 lire contributed	33%	26%
On the residual contribution . . .	20%	20%

Before applying these percentages, the contributions effected before the 31 March 1943 are revalued as follows:

— Every lira contributed in periods earlier than 30 April 1939 is considered as worth 2.70 lire;

— Every lira contributed in periods between 1 January 1939 and 31 March 1943 is considered as being worth 1.50 lire.

To the total equalised pension (basic part plus readjustment) is to be added, every year, to cover the Christmas bonus, a 1/12 of the annual pension (20).

The *survivors' pension* is reckoned as a proportion (21) of the direct pension actually being drawn or for which rights had been acquired (disregarding the sums in respect of dependent children). Where no rights have been acquired (but where the insured person can demonstrate that he has paid a full year's contributions) a lump sum payment is granted equal to 45 times the amount of the basic contributions paid in (22).

7. — *Conditions necessary to acquire pension rights.* - Entitlement to an old age pension is conditional on:

(a) reaching the age of 60 (for men) and 55 (for women);

(b) having been insured for at least 15 years;

(c) the payment of a number of basic contributions equal to at least fifteen years of full contributions (23).

(20) In practice this is how the pension is worked: if a man with two dependent children has a total basic contribution [as revalued, cf. note (14)] of 10,000 lire, the percentages set out in the preceding note apply to that sum. This gives a figure of 2,570 lire to which are added 514 lire for the dependent children (2/10) and 100 lire for the payment made by the State. The basic pension will be 3,184 lire (2,570 lire plus 514 plus 100) which in practice will be raised to 3,192 in view of the statutory provisions rounding up the monthly instalments. If the basic pension is multiplied by 45 and 1/12 added for the extra month's wages paid at Christmas and the monthly instalment is rounded up to the nearest 50 as laid down by the law, the total equalised pension will be 155,350 lire payable in 13 monthly instalments of 11,950 lire.

(21) The percentages laid down by the law are as follows:

Husband or wife alone or with orphans		*Orphans alone*		*Parents*	
Husband or wife	50%				
Husband or wife and one orphan	90%	1 orphan	50%		
		2 orphans	60%	1 parent	15%
Husband or wife and two orphans	90%	3 orphans	90%	2 parent	30%
		4 or more orphans	100%		
Husband or wife and three or more orphans	100%				

(22) The survivors of holders of a pension paid out in the five year period 1940-45 (before the right of reversion came into effect) are paid a lump sum equal to one year's rate of pension (cf. note 6).

(23) This condition will be enforced in full as from 1 January 1962 while, for the period 1952 to 1961, transitional arrangements will be applied under which a contribution will be required which will increase year by year.

Entitlement to draw an invalidity pension is conditional on:

(a) the reduction in the earning capacity in occupations suitable to the aptitudes of the person insured to less than 1/3 for workers, and too less than 1/2 for white collar employees;

(b) having been insured for at least 5 years;

(c) the payment of a number of basic contributions equal to at least five years full contributions;

(d) the payment of a number of contributions equal to a year's full contribution in the five years immediately preceding the application for pension.

The survivors are entitled to claim reversion of the pension:

(a) in the event of an insured person dying who had already fulfilled the conditions for obtaining an invalidity or old age pension;

(b) in the event of a pensioner dying whose pension started to be paid out after 1 December 1944.

The survivors are entitled to a lump sum payment:

(a) in the event of an insured person dying who, while not having fulfilled the conditions for drawing a pension, had paid a full year's contributions;

(b) in the event of a pensioner dying who started to draw his pension between 1 January 1940 and 31 December 1944.

An examination of the various conditions shows that those of length of membership and of contributionary period have a typically « insurance » stamp and that they are still retained in the modern system. In a way, they explain why this form of social security is still called insurance.

8. — *Pension levels.* - To form an idea of the quantitative implications of the system in practice, it is as well to show the level of pensions at present being paid and the future prospects.

We don't take into account concrete cases of statutory minimum pensions (24), which are nowadays particularly frequent, but will tend to diminuish during the transitional period owing to the gradual entry into force of the provision which requires 15 years of full contributions before an old age pension can be claimed and, from 1962 on, for non-agricultural workers, will arise almost exclusively in the case of invalidity pensions.

Table V shows, assuming constant salaries, the series of pensions accruing for different contributionary periods in 1953, in 1963 and in 1983 to an *employee* who has always (before and after the coming into force of the 1952 law) paid his contributions in the highest grading (25).

TABLE V

ANNUAL PENSIONS CLASSIFIED BY CONTRIBUTIONARY PERIOD (a)

(employees)

Contributionary periods	Number of years	Annual pension (thousands of lire)	% of annual earnings
Jan. '24 – Dec. '53	30	405.6	26.0
» '34 – » '53	20	367.2	23.5
» '44 – » '53	10	248.9	16.0
» '34 – » '63	30	621.4	39.8
» '44 – » '63	20	502.4	32.2
» '54 – » '63	10	286.0	18.3
» '54 – » '83	30	783.0	50.8
» '54 – » '73	20	540.1	34.6

(a) The salary, though all of it is subject to contribution, ranks for pension only up to the amount of 120,000 lire a month.

As will be seen, the situation is tending to improve since the coming into force of the 1952 law, until, in 30 years time, the pension of a man with an unbroken record of contributions subsequent to the coming into force of the law will be about 51% of his salary (26) *on the assumption that in the intervening years there is no variation in the level of salaries.*

Coming now to *industrial workers*, who form the greater part of insured persons, let us take a typical example: average working year 41 weeks and wage equal to the average national earnings (as estimated by « The National Labour Accidents Insurance Institute » in evaluating accidents for the period up to 1953) and let us assume that its real value is equal to the 1953 value for the whole of the successive period. Depending on the various contributionary periods we shall have the following situation (cfr. Table VI):

TABLE VI

ANNUAL PENSIONS CLASSIFIED BY CONTRIBUTIONARY PERIOD

(industrial workers)

Contributionary periods	Number of years (a)	Annual pension (thousands of lire)	% of annual earnings
Jan. '24 – Dec. '53	30	180.800	63.0
» '34 – » '53	20	156,650	52.0
» '44 – » '53	10	109,200	36.2
» '34 – » '63	30	208,650	69.2
» '44 – » '63	20	161,200	53.5
» '54 – » '63	10	85,150	28.3
» '54 – » '83	30	188,600	62.8
» '54 – » '73	20	137,150	45.7

(a) At the time of being pensioned off.

As regards *agriculture* we may take the case of a regularly employed farm hand with a wage of 818 lire a day for 300 days a year. Let us suppose that this rate of earning remains constant over the subsequent period (cf. Table VII).

Agricultural workers' pensions, assuming equal contributionary periods, are well below those of non-agricultural workers in absolute

(24) In order to get into perspective, these minima, which for pensioners with non dependent children, amount to 45,000 or 65,000 lire a year, it should be borne in mind that the average earnings of an industrial worker (referred to by I.N.A.I.L. in evaluating accidents) was 1,225 lire a day in 1953. Assuming a working year of 41 weeks, as emerges from the statistics of the Family Allowance Fund (« *Cassa Assegni Familiari* ») administered by the National Social Security Institute, we arrive at an annual total of 301,350 lire. Now, if we take this sum as the average annual earnings of an industrial worker, it will be seen that the minima represent 15% or 22% (according to the case) of the earnings.

(25) This top grading included, from 1920 to 1939, salaries over 240 lire a month; from 1939 to 1952 those above 1,400 lire a month; from 1952 on those over 120,000 lire.

(26) The improvement is due to the fact that the 1952 law has moved the number of the gradings upwards, thus raising to a higher level the basic contribution of the top grading (which has risen from 180.30 lire a month to 200).

values, owing to the fact that their contributions are much lower which, in turn, is due to the average earning of this labour category.

TABLE VII

ANNUAL PENSIONS CLASSIFIED BY CONTRIBUTIONARY PERIOD

(agricultural workers)

Contributionary periods	Number of years (a)	Annual pension (thousands of lire)	% of annual earnings
Jan. '24 – Dec. '53	30	82,550	33.6
» '34 – » '53	20	66,950	27.3
» '44 – » '53	10	45,500 (b) / 65,000 (c)	18.5 / 26.5
» '34 – » '63	30	96,850	39.5
» '44 – » '63	20	81,250	33.1
» '54 – » '63	10	65,000 (d)	26.5
» '54 – » '83	30	124,150	50.6
» '54 – » '73	20	93,600	38.1

(a) At the time the worker is pensioned off.

(b) Minimum to which people under 65 in receipt of an old age pension are entitled.

(c) Minimum to which invalidity pensioners of any age and old age pensioners of over 65 are entitled.

(d) Minimum to which people drawing invalidity pensions are entitled. In the case postulated there would be no entitlement to old age pension.

Statistical data on the pensions paid in 1952.

9. — The number and the amounts (total and *per capita* averages) of direct (old age and invalidity) pensions and of indirect (survivors') pensions which were being paid on 31st December, 1952, are shown in Table VIII.

TABLE VIII

GROUP DISTRIBUTION OF THE PENSIONS EFFECTIVE ON 31.12.1952

Group	Number of pensions	Annual amount	
		Total (millions of lire)	Per capita average (lire)
Old Age	1,318,961	111,963	84.887
Invalidity	510,452	41,011	90,343
Survivors	169,207	11,147	65,877
Total	1,998,620	164.121	82,117

On 31st December, 1952, the compulsory pensions (provided by law) in course of payment numbered in all 1,998,620 of which 66% were paid to old age pensioners, 26% for invalidity, and only 8% to the survivors of insured persons or pensioners. The participation of survivors to the pensions was still very small as the right to reversibility was granted only in the case of pensioners already receiving pensions, and in cases of death while at work that have occurred as from 1st January 1945.

The average *per capita* amount is seen to be higher for the invalidity pensions (L. 90,343) than for the old age ones (L. 84,877) although the average length of the contributionary period is higher in the case of the old than of the invalidated. This is due to the fact that the minimum pension guaranteed for invalidity was 65,000 lire per annum for each case, whereas the minimum pension guaranteed to old persons under 65 years of age (who accounted for 38% of all those entitled to receive them) was only 45,500 lire.

Table IX shows the territorial distribution of the expenditure on pensions and the average *per capita* amount in the several areas of the country on 31.12.1952.

TABLE IX

TOTAL ANNUAL AMOUNT AND AVERAGE PER CAPITA VALUE OF THE PENSIONS ON 31.12.1952, IN THE SEVERAL AREAS

	Total annual amount		Average per capita amount	
	Millions of lire	%	In lire	Index: Italy = 100
North Italy	101,251	61,86	85,948	105
Central Italy	24,477	14,92	83,451	102
South Italy	24,163	14,72	72,783	89
Islands	13,791	8,40	72,680	89
Italians abroad . . .	169	0,10	70,856	86
	164,121	100,00	82,117	100

North Italy (44.25% of the Italian population) received nearly 60% of the pensions, and accounted for 62% of the sums assigned; the *per capita* average amount therefore exceeded by 5% the national average. The South and Islands (37.18% of the Italian population) received 26% of the pensions and therefore

accounted for only 23% of the expenditure, so that the average *per capita* pension was 11% below the national average. This difference is accounted for by the fact that in the South the pensions to farm workers, which are lower than the others, are preponderant and lower the average.

The distribution of the pensions, classified by their amounts, on 29.11.1952 is shown in Table X.

TABLE X

PERCENTAGE DISTRIBUTION OF PENSIONS CLASSIFIED BY AMOUNT ON 29.11.1952

Amount per annum Lire	% of pensions			
	Old age	Invalidity	Survivors	Total
from L. 45,000 to 65,000	21.44	—	63.68	19.23
65,000 100,000	56.67	88.65	26.87	65.28
100,000 150,000	3.11	2.49	3.28	2.96
150,000 200,000	11.69	6.19	5.08	9.75
200,000 250,000	5.15	2.05	0.90	4.01
250,000 300,000	1.35	0.44	0.15	1.02
300,000 350,000	0.41	0.12	0.04	0.31
350,000 400,000	0.15	0.04	—	0.11
Oltre L. 400,000	0.03	0.02	—	0.03
Total . . .	100.00	100.00	100.00	100.00

Table X shows that for all types of pensions the greatest number were those belonging to the group covering the minimum benefit guaranteed by law. In the case of survivors' pensions, 63.84% belong to the first amount group (minimum L. 45,500 per annum); in the case of pensions for invalidity, 88.65% belong to the second amount group (minimum L. 65,000 per annum), while in the case of old-age pensions, 21.44% come under the first amount group, covering the minimum amount for pensioners under 65 years of age (L. 45,000 per annum) and 55.67% come under the second group, which includes the minimum pension for persons over 65 years of age (L. 65,000). In the case of old age pensions the number in the first two amount groups (78.11%) is smaller than is the case for the invalidity pensions (88.65%), as the contributionary period for the old age pensions (on the basis of which they are liquidated) is generally longer. But the weight of the pensions of less than 65,000 lire is however such that it lowers the average *per capita* amount of the old age pensions to a figure below that for the invalidity pensions. (See Table VIII).

For the invalidity and old age pensions the following Table XI shows their distribution on 29.11.1952 classified by branch of economic activity to which the insured persons belonged in the last five years previous to retirement.

Most of the pensioners belong to industrial occupations, which alone account for nearly 48% of the total, while those classified under « agriculture, hunting and fishing » account for 25%.

GINA PAPA

DISTRIBUTION OF DIRECT (OLD AGE AND INVALIDITY PENSIONS) ON 29.11.1952 CLASSIFIED BY BRANCH OF ACTIVITY

TABLE XI

Branch of activity	Old Age		Invalidity		Both	
	N°	%	N°	%	N°	%
Agriculture, hunting and fishing	314,670	24.91	124,757	25.29	439,427	25.02
Industry	627,070	49.63	209,187	42.41	836,257	47.60
Transports and Communications	18,958	1.50	4,587	0.93	23,545	1.34
Commerce	20,249	1.60	7,257	1.47	27,506	1.57
Banking and insurance . . .	4,603	0.37	1,049	0.21	5,652	0.32
Sundry	277,833	21.99	146,415	29.69	424,248	24.15
Total	1,263,383	100.00	493,252	100.00	1,756,635	100.00

Australian Post-war Immigration

Large scale migration has been an event of great economic and social significance in the post-war world. Australia's role in this important human venture has been a very prominent one. Although the actual number of migrants entering Australia has been exceeded by the number entering the country of Canada and the United States, in relation to population Australia has absorbed more migrants than any other country during the period 1945 to 1954.

As early as 1946 Australia decided to admit migrants at an annual rate of 70,000. This rate was soon exceeded, and by 1949 the target was raised to an annual rate of 110,000 permanent migrants. This, however, was not the end. A new government assisted by prosperous economic conditions expanded the target in 1951 to an annual rate of 200,000 immigrants. This figure was never actually achieved as in 1952 the turn of the economic wheel brought a decision to reduce the target to 80,000 immigrants per annum. Since that date, however, the target rate has been gradually stepped up, and in November 1954 was raised to 115,000 immigrants per annum.

Although the immigration targets were not completely achieved in practice, nevertheless the results were reasonably close. As a result of the post-war world population readjustments, the year 1946 showed a net outflow of migrants from Australia. As the immigration plans took shape this position was soon reversed and intakes of 32,000 and 66,000 took place in 1947 and 1948. The slight lag of actual arrivals behind target figures was rapidly overcome as 1949 showed a quick jump to 168,000 permanent arrivals. After a further slight increase to 175,000 immigrants in 1950 the intake tapered off gradually with arrivals of 133,000 and 128,000 in 1951 and 1952.

The drop in 1951 was caused by the easing up in the flow of displaced persons from Europe. This flow virtually ceased in 1952. The slightly difficult economic conditions of 1952 reinforced the downward trend of immigration so that in 1953 there were only 75,000 permanent arrivals. The year 1954 showed a slight pick up with 100,000 permanent arrivals.

Between January 1947 and December 1954 a total of 875,000 migrants arrived in Australia. As an offset there were some 195,000 departures, leaving a net migration of 675,000 during the period. Additions to the population from natural increase totalled 845,000 over the same period so that the Australian population showed an increase of 1.5 million over a period of 7 years — an increase of some 20 per cent over the population of 7.5 million at January 1947. At the present rate of immigration and natural increase the Australian population can be expected to reach 10 million by 1960.

1. - Nationality of Immigrants.

One of the first reactions to the information that almost 900,000 people have come to Australia in the post-war period to become permanent residents, is to wonder where they have come from. In general they have come from Europe, although a small number of people of other nationalities have arrived including Americans and Asians.

Table 1 shows that during the period October 1945 to September 1954 almost 50 per cent of the total arrivals have been of British nationality. The nationalities of the non-British migrants have been very varied, but by far the largest number of migrants have come from Italy. Over 11 per cent of total arrivals have been Italians while the next highest nationalities may be summarized as Poles with just over 8 per cent, Dutch about 7 per cent, Latvians, Estonians and Lithuanians over 5 per cent, Germans almost 4 per cent and Jugoslavs 3 per cent.

The remaining 12 per cent are mostly of other European nationalities.

A better impression of current migration movements may be obtained if the earlier years of migration with their excessive emphasis on displaced persons are ignored, and an examination made of the flow during the 3 years 1952 to 1954. British migration maintains its dominating position with an intake amounting to 50 per cent of the past three years arrivals. The importance of the Italian intake, however, becomes more striking as it is revealed to constitute 20 per cent of the intake over the past three years. The next largest groups of migrants during this period were the Dutch 12 per cent, Germans 9 per cent and Greeks 4 per cent.

NATIONALITIES OF PERMANENT NEW ARRIVALS IN AUSTRALIA
OCTOBER, 1945-SEPTEMBER, 1954

TABLE 1

Nationality	October 1945–1949	1950	1951	1952	1953	1954 Jan. to Sept.	Total	
							Number	%
British	152,768	69,341	73,586	64,107	34,862	32,323	426,987	49.1
American	4,491	1,085	1,002	817	1,036	1,021	9,452	1.1
Austrian	1,452	339	937	509	313	792	4,342	.5
Belgian	157	140	142	107	53	38	637	.1
Bulgarian	250	423	119	21	8	33	854	.1
Chinese (a)	1,563	540	607	671	454	283	4,118	.5
Czechoslovak	4,962	5,034	1,063	458	62	48	11,627	1.3
Danish	461	109	103	105	79	72	929	.1
Dutch	3,614	11,167	13,181	15,418	9,374	7,032	59,786	6.9
Estonian	4,636	1,210	224	92	25	1	6,188	.7
French	1,188	592	821	917	273	228	4,019	.5
German	2,736	1,486	4,341	6,985	7,924	8,852	32,324	3.7
Greek	4,884	1,716	2,570	2,344	2,952	5.647	20,113	2.3
Hungarian	6,406	5,379	1,446	493	70	43	13,837	1.6
Italian	13,076	13,005	16,554	28,000	13,804	12,694	97,133	11.2
Latvian	13,388	5,405	765	184	58	32	19,832	2.3
Lithuanian	8,272	1,557	170	63	17	10	10,089	1.2
Norwegian	269	83	355	281	52	21	1,061	.1
Polish	34,604	31,913	3,880	959	236	65	71,657	8.2
Roumanian	712	979	337	81	9	20	2,138	.2
Russian (b)	10,913	6,911	1,686	693	519	225	20,947	2.4
Syrian and Lebanese	629	588	1,069	220	94	250	2,850	.3
Swedish	160	99	74	77	56	28	494	.1
Swiss	399	417	390	321	180	106	1,813	.2
Jugoslav	9,412	10,680	3,470	1,145	564	499	25,770	3.0
All others	5,476	4,342	3,650	2,756	1,841	2,420	20,485	2.3
Total	286,878	174,540	132,542	127,824	74,915	72,783	869,482	100.0

(a) Mainly students, merchants, diplomatic staff and dependants.
(b) Includes Ukrainians.

ARRIVALS UNDER THE MAIN ASSISTED SCHEMES JANUARY 1947-DECEMBER 1954

TABLE 2

Scheme	1947–1950	1951	1952	1953	1954	Total	
						Number	%
United Kingdom Free and Assisted	97,805	44,007	35,080	13,695	18,681	209,268	43.5
Eire	566	426	573	240	204	2,009	0.4
Maltese	7,013	3,313	1,903	1,145	4,506	17,880	3.7
Empire Allied ex-Servicemen	9,295	5,557	3,025	1,227	1,847	21,401	4.4
Displaced Persons	156,491	11,708	2,055	441	5	170,700	35.5
Dutch	568	1,604	6,964	2,397	2,861	14,394	3.0
Italian	—	59	9,911	—	361	10,331	2.2
Triestian	—	—	—	—	4,153	4,153	0.8
German	—	—	1,007	6,576	11,711	19,294	4.0
Greek	—	—	—	1,486	7,271	8,757	1.8
Other	1,457	—	13	103	1,674	3,247	0.7
Total Assisted	273,195	66,674	60,531	27,310	53,698	481,408	100.0

2. - Method of Arrival.

Since the inception of its immigration policy the Australian Government has made a number of agreements with various countries and organizations for the purpose of facilitating the migration of those who could not undertake the journey without assistance of some sort. Table 2 shows the number of arrivals between January 1947 and December 1954 who have received assistance under various migration schemes.

The number of schemes instituted to assist immigration is now quite large but it is worthwhile giving a brief outline of them. They will be considered in the order set out in Table 2.

United Kingdom Free and Assisted Passage Agreement. — This scheme was commenced in March 1947 under an agreement between the Australian and United Kingdom Governments. In order to relieve the strain on housing it was decided that no British migrant would be accepted under the scheme unless he had an Australian nominator who could guarantee to accommodate him on arrival. Generally these nominators are relatives or friends, but in many cases employers have nominated individuals or groups of workmen, particularly specialists and skilled workers. In 1950 the flow of labour for certain essential industries became so small that the Australian government itself found it necessary to nominate certain selected migrants and arrange for their care and accomodation while they remained in its employment. The flow of migrants under this scheme has been fairly steady and has amounted to 43.5 per cent of assisted migrants.

Eire Assisted Passage Scheme. — Under the initial United Kingdom-Australia agreement the only Irish eligible for assisted immigration to Australia were the residents of Northern Ireland. The opening of this scheme in November 1948 extended the assistance to citizens of Eire. Less than one per cent of assisted migrants have arrived under this scheme.

Maltese Assisted Passage Scheme. — In May 1948 the Australian Government entered into an agreement with the Government of Malta to provide assistance for Maltese who wished to come to Australia on the nomination of friends, relatives or employers. A small but fairly regular flow of migrants have taken advantage of the assistance rendered under this scheme.

Empire and Allied Ex-Servicemen's Scheme. — The principal object of this scheme was to give the ex-servicemen of Empire and Allied countries who had served in Australia during World War II an opportunity of returning for permanent settlement. The scheme was initiated in May 1947 to assist Empire and United States ex-servicemen not covered by any other scheme but was extended in March 1948 to cover the countries of Belgium, Denmark, Holland, France and Norway. Over 4 per cent of the migrants have come to Australia under this scheme. The majority of these were Dutch, and as they are now covered by a separate Netherlands agreement the numbers of ex-servicemen are beginning to wane.

Displaced Persons. — In July 1947 the Australian Government and the International Refugee Organization arranged for the resettlement in Australia of European displaced persons. The Australian Authorities set up large reception and training centres to ensure that adequate care and assistance would be given to these migrants on arrival. The flow of migrants from this source ceased soon after the I.R.O. was wound up in 1951. In all, some 170,000 displaced persons were absorbed by Australia. In relation to population this was the highest percentage intake of displaced persons by any country in the world.

Netherlands Migration. — In December 1946 an agreement was negotiated between the Australian Government and the Netherlands Emigration Foundation under which the Foundation attended to the care and placement of Dutch migrants to Australia. In February 1951 this agreement was superseded by one between the Australian and the Netherlands Government. The Australian Government now undertakes care of the migrants and secures employment for them. There is a regular flow of migrants under this scheme, and so long as problems of overpopulation exist in Holland the scheme should continue to provide a steady flow of migrants.

Italian Agreement. — In an endeavour to maintain the flow of migrants which was tapering off in 1951 with the cessation of displaced persons, the Australian Government entered into negotiations with several European Governments. The first agreement was made with the Netherlands Government. The second agreement was made with the Italian Government in March 1951. In this and similar agreements contributions are made towards the cost of the passage by both parties and the Committee for European Migration. Under the terms of this agreement the contribution of the Australian Government is £25 sterling per adult, and proportionately for children in accordance with passage rates. The scheme started very auspiciously in 1952 with the largest non-British flow of assisted migrants. Unfortunately the unfavourable economic conditions of 1952 corresponded with the arrival of these migrants and made it difficult to find early and permanent employment for them. The Australian Government immediately tried to halt the scheme temporarily, but as there was already a steady flow of migrants in transit and many more awaiting embarkation in Italy, it was not possible to do so. As employment became more and more difficult to obtain both governments were increasingly unhappy

at the outcome of the venture and it was suspended by mutual consent after little more than one year operation. Toward the end of 1954 negotiations were reopened, and the scheme is now continuing in a reorganized and it is hoped even more extended fashion.

German Agreement. — In August 1952 an agreement was negotiated with the Government of Western Germany. The flow of migrants under this scheme is steadily expanding. In 1954 they comprised the largest flow of non-British assisted migrants.

Austrian and Greek Migration. — Late in 1952 arrangements were made with the Inter-Governmental Committee for European Migration for assistance to migrants from Greece and Austria. These arrangements were extended in 1953 to a limited number of refugees from the East Zone of Germany and to residents of Trieste. Since the incorporation of Trieste with Italy these migrants have been covered by the Italian scheme. In 1953 Greek migrants commenced to arrive in Australia and in 1954 they comprised the second largest flow of non-British assisted migrants.

General Assisted Passage Scheme. — In order to expand the current migration flow a scheme was approved in August 1954 whereby suitable migrants from Norway, Denmark, Sweden, Finland, Switzerland and the United States may receive assistance to help them settle in Australia. For Norway, Denmark and the United States this amounts to a generalization of the more restricted assistance granted previously to ex-servicemen under the Empire and Allied Ex-Servicemen's Scheme.

Not all the migrants however received assistance under schemes such as those outlined. Between January 1947 and December 1954 some 394,000 out of the 875,000 total arrivals in Australia came without any governmental financial assistance. The annual movements of these assisted and non-assisted migrants are shown in Table 3.

The annual fluctuation of non-assisted migrants has been much smaller than that of assisted migrants. This can be mostly attributed to the control which the Australian Government exerts over assisted migration. It can expand or contract its assistance schemes almost at will although there is clearly a considerable time lag between the administrative decisions and the resulting flow of migrants.

Owing to the fact that some of the assistance schemes contain migrants of several nationalities it is not easy to obtain an accurate classification of assisted migrants according to nationality, and hence of non-assisted migrants according to nationality. However some fairly clear trends may be discerned from the material presented previously in Tables 1 and 2. While British migrants comprise just under 50 per cent of both total arrivals and assisted arrivals, they constitute just over 50 per cent of non-assisted arrivals. Of the total non-British arrivals it has been seen that Italians are by far the most numerous. Owing to the deferment of the Italian scheme, assisted migrants from Italy, however, amounted to only 4 per cent of total assisted arrivals compared with 11 per cent for total arrivals from Italy.

Of the non-assisted arrivals Italians have comprised 23 per cent, about twice the number of Dutch who have been the next largest national group of non-assisted migrants.

In general non-British nationals can enter Australia as permanent migrants only if they are nominated by relatives who are Australian residents. Any Italian or other European who has resided in Australia for more than one year qualifies as an Australian resident. Such a person may accordingly nominate relatives by applying for a landing permit for them. Provided there are no grounds for believing the Australian resident is an unsatisfactory citizen, and subject to a check on the person nominated, authorizations are granted permitting the migrant to come to Australia.

Since 1945 over 50 per cent of the authorizations for non-British European nationals to enter Australia have been granted in favour of Italians. In recent years the number has been steadily increasing and in 1954 amounted to over 70 per cent of non-British European authorizations. A certain proportion of these authorizations are of course never taken up, but they are a good indication of the desire felt by Italians resident in Australia to assist their relatives in Italy to joint them in their new found happiness, and share their rising standard of living in a country which is continually developing.

TABLE 3

PERMANENT NEW ARRIVALS 1947-1954

	Assisted '000	Non Assisted '000	Total '000
1947	6.3	25.5	31.8
1948	28.9	36.8	65.7
1949	118.8	48.9	167.7
1950	119.1	55.4	174.5
1951	66.7	65.9	132.6
1952	60.5	67.3	127.8
1953	27.3	47.6	74.9
1954	53.7	46.3	100.0(a)
Total . .	481.3	393.7	875.0
	55.0 %	45.0 %	100 %

(a) Preliminary estimate.

3. - Age and Sex of Migrants.

Up to 1947 the Australian population was becoming progressively older. The proportion of the population aged under 15 years steadily decreased from 42 per cent in 1871 to 25 per cent in 1947. Since the latter date the movement has been in the opposite direction. The main cause of the reversal of trend is to be found in the great increase in the birth rate during and since the World War II. However, while the inflow of migrants may not be considered to have made a very important contribution to this new trend in the age distribution it has nevertheless assisted the movement.

While the proportion of migrants in the under 15 age group tends to be only slightly higher than that of the Australian population, the proportion of migrants over 40 tends to be less than half that of the Australian population. Since the number of migrants is small compared with the total population, the influence of migration while tending to reduce the proportion of aged people does not have any marked effect on it.

So far there has been a slight tendency for migration to increase the masculinity of the Australian population. The ratio of males per 100 females in the total arrivals since the end of the war has been just over 130. When included in the Australian population the result has been to assist in raising the masculinity of the Australian population from 100.4 at June 1945 to 102.4 at June 1954. This may however be only a short run tendency as many male migrants, particularly Italians, are only awaiting the opportunity to send home for their wives and fiancées, or even the chance to return to their native country in search of a wife.

4. - Occupations of Migrants.

Owing to the lower age distribution and the higher masculinity ratio of migrants compared with the Australian population the proportion of workers to non-workers tends to be higher among migrants than in the Australian population. While 50 per cent of migrants are workers only 42 per cent of the Australian population is included in the work force. Migration therefore has a slight tendency to raise the ratio of workers to non-workers in Australia but again owing to the relatively small numbers of migrants this tendency can exert only a slight influence. In fact it is only of the order of a one per cent change in the over-all ratio.

Unfortunately it is not possible to obtain any accurate information regarding the occupations in which migrants are engaged in Australia, but a guide to the type of employment for which they may be fitted is given by the information about past occupations supplied by migrants on entry into Australia. The percentage distribution of the stated occupations of male workers entering Australia as permanent migrants during the period 1950 to 1954 compared with the occupational distribution of male workers in Australia at the time of the 1947 census is given in Table 4.

Taking account of the fact that there is always a tendency for people to upgrade themselves when answering questions regarding occupations and that this tendency is probably greater in the case of migrants who are aware that entry into Australia is easier for skilled than unskilled tradesmen, there is remarkably little difference between the migrant occupational distribution for male workers and that of Australian male workers. The small differences between the three classes of tradesmen can be readily accounted for under the argument just outlined, so that the only real difference is the slightly higher proportion of tradesmen as a group and the slightly lower proportion of commercial and clerical workers as compared with Australian male workers.

TABLE 4

OCCUPATIONAL DISTRIBUTION OF MIGRANT MALE WORKERS

Occupation	Male Workers	
	Migrant %	*Australian Census 1947* %
Rural	17.0	17.9
Professional and *semi-professional . . .	4.2	3.3
Administrative . . .	2.2	5.6
Commercial and clerical	8.4	16.5
Domestic	4.8	6.1
Tradesmen (skilled) .	31.4	20.1
Workers (semi-skilled)	12.9	20.8
Labourers	14.6	6.4
Not stated	4.5	3.3
Total . . .	100.0	100.0

On the female side the same similarity exists between the migrant and Australian occupational distributions. One slight difference however arises in domestic employment. Female migrant workers possess a higher proportion who have been occupied in domestic service than is the case for Australian female workers. This is partly due to the steady decline which has taken place in the proportion of Australian female workers engaged in domestic service owing to the

existence of the extremely favourable economic circumstances of the post-war period in which it has been easy to obtain jobs in other more preferred fields of activity.

While no reliable information is available in regard to the actual occupations in which migrants engage after settling in Australia, it is possible to make some general observations regarding Italians. A very large proportion of the pre-war Italian migrants settled in the sugar growing areas of Queensland. Up to 1945 almost two-thirds of Italians in Australia were in rural occupations of which almost half were in Queensland. The recent migration of Italians has added to the rural communities but the major portion of these migrants has remained in the cities. Here they have engaged in a reasonably restricted number of occupations covering mainly activities connected with foodstuffs, particularly restaurants, fruit and vegetable selling (and growing at times), and with the building trade. With the increasing numbers arriving there is a tendency to spread to other occupations but on the whole Italians tend to follow the pattern set by their predecessors (1).

One of the most important features of the migration programme has been the way in which the trade unions in Australia have accepted both British and non-British migrants into their ranks. Indeed the post-war migration plans owe their origin to the Australian Labour Party, which continued to give it considerable assistance until it went out of office in 1951. There have, however, been some slight difficulties over the standing of some of the non-British migrants possessing professional skills such as medicine, although here the problem has now been satisfactorily solved in some of the Australian States.

5. - *Reasons behind the Immigration Policy.*

Before considering the impact of immigration on the Australian economy it is worthwhile examining the reasons which led to the ready acceptance of the large scale immigration just outlined. In the early post-war period most support originated from humanitarian feelings and for defence reasons. There were clearly genuine humanitarian reasons why immigration should be supported, and these do not need to be explained to anyone conversant with the post-war European scene. Australia has undoubtedly made a valuable contribution to world welfare by its assistance to Europeans, and for this reason alone the migration is fully justified.

(1) An excellent study of Italian assimilation in Australia is contained in W. D. Borrie, *Italians and Germans in Australia*, F. W. Cheshire, Melbourne, 1954.

World War II however made Australia much more conscious of its place and obligations in the Pacific Area. War had come much nearer to home than had been thought possible some years before. Many people thought security against future Asian troubles could only be found if Australia was to expand its population rapidly. Having just emerged from a war there was a certain emotional content to such arguments but over the ensuing years they have gradually diminished. The pace of economic expansion in Australia and the realization of the immigration plans have tended to lower their influence. However, they still remain in the background, and even if not possessing the haunting power and sense of urgency of the early post-war years, the arguments are by no means forgotten.

Associated with these two reasons yet slightly apart from them was an underlying feeling possessed by many Australians that their country was a large underdeveloped continent inhabited by very few people who were of a consequence living in conditions of relative paradise compared with the rest of the world. Somehow or other there existed a guilty feeling that on the one hand more people could share their happy state and on the other that the « great and relatively undeveloped natural resources » of Australia could thereby be utilized more fully. Those feelings have a certain element of truth behind them but the argument should not be carried too far.

Australia is a large continent, but area should not be confused with habitability. Although there are large sections of the dry area where improved transport facilities and more techniques could extend settlement, the general tendency is for rural expansion to take place by more intensive cultivation of the better areas already settled. Australia's water resources are only a small fraction of those of other continents, and this lack of water provides a limiting factor to both industrial and agricultural expansion. It has been estimated that if Australia's irrigation resources were tapped regardless of cost, the area served would not exceed five million acres, or between three or four times the present irrigated area. For comparison the United States has over 20 million acres under irrigation. While coal resources are plentiful, high grade iron deposits would be totally consumed by an industrial force of the size of the United States in a relatively short period. However, the discovery of uranium and the good prospects for the discovery of oil have put a slightly new complexion on the future development of Australia. Nevertheless, while Australia still has considerable room for expansion, its resources are not as large as are sometimes supposed, nor are they so undeveloped.

The past ten years has seen a very rapid development in the Australian economy, and it is the out-

come of this expansion rather than the fact that undeveloped resources exist which has done most to continue the emphasis placed upon immigration. Full employment has existed almost continuously since 1940, and with it has come the corollary of a labour shortage. Many people have confused cause with effect and see in immigration the solution to this labour shortage. While others realise the inflationary effect immigration is having on the course of a rapidly developing country, they also reap substantial financial benefits from it and accordingly are prepared to add their support to continue migration.

Finally many people see in immigration a chance to inject many different social and cultural customs into the essentially British background of Australians. This process has undoubtedly had profound and valuable effects in the United States of America, and while it might be true also of Australia it is capable of oversimplification.

6. - *Economic Effects and Implications.*

Although the influence of immigration on the demographic structure of Australia has so far been small, its effect on the economic structure has been considerable. It is exceedingly difficult to assess the effects of the migration programme with any degree of accuracy without making a thorough investigation into the industries in which migrant labour is finding employment and activity . Nevertheless it is possible to comment on the over-all implications of migration.

Since the end of the war Australia has enjoyed a high level of prosperity. This was particularly so from 1945 up to the middle of 1951. During this period wool prices rose continuously and rapidly, and the terms of trade moved steadily in favour of Australia. Owing to the shortages of capital immediately following the war both in Australia and abroad it was not possible to satisfy the growing internal demand either by local production or imports. The addition of a large inflow of migrants at such a time while providing an increase in the work force also added to the immediate capital demands in the form of demands for housing and places to work. This accentuated the boom conditions. While it is doubtful whether the rate of migration should have been so high during this period, it is nevertheless true that under conditions in which full employment exist together with a rapid rate of economic expansion, an inflow of migrants adds more to demand than supply in the short run and hence precipitates inflationary conditions.

In 1951, however, conditions in Australia began to change. The price of wool fell from the very high level of the previous year and with the expansion of overseas productive capacity, imports began to become freely available. The simultaneous impact of these forces had disastrous effects on Australia's balance of payments. During 1951-52 export proceeds fell by 30 per cent while imports rose by over 40 per cent compared with the previous year. Thus supplies of all kinds of goods became plentiful at a time when internal demand was declining with the reduction on export incomes. The result was of course a gradual increase in unemployment.

The inflow of migrants under those conditions only tended to heighten the unemployment by adding to the number of people seeking jobs, without offsetting the deleterious effects which the import surplus and excessive stocks had on entrepreneurial expectations. Thus for a brief period there was considerable difficulty in finding employment for the migrants. As discussed earlier, it was unfortunate that just at this juncture the Italian assistance scheme started to operate, and like many other schemes it had to be considerably reduced.

With the aid of import restrictions and a liberal monetary policy the adverse economic conditions were soon overcome. Unemployment reached a limit of 4 per cent at the end of 1952, and has steadily declined ever since. The symptoms of full employment were becoming apparent early in 1954, and the process of economic expansion, which received a temporary setback, is again proceeding at a steady rate. As a result immigration is expanding, but this time at a more reasonable level.

In the early post-war years the immigration programme was designed to provide a popoulation increase of 2 per cent per annum. Adding the rate of natural increase, the Australian population was expected to grow at an annual rate of 3.5 per cent. While such a rate was achieved for a brief period in the United States of America in the middle of the nineteenth century, the interesting feature is that the rate of natural increase was higher and the rate of immigration lower than was the case in Australia. A high rate of natural increase gives the economic system less of a shock than a high rate of immigration, and the early Australian plans were undoubtedly over-ambitious for this reason. Out of the balance of payments crisis of 1951-52 there has therefore come a lot of good. Despite the high cost structure of Australian industry, the economy is more firmly based than hitherto, and provided export receipts do not show any marked fall, Australia should be capable of absorbing a regular flow of migrants at a high standard of living for some considerable time to come.

DONALD COCHRANE

STATISTICAL APPENDIX

ITALIAN BUDGET SUMMARY

(milliards of lire)

Table A

Fiscal year beginning 1st July	Revenue			Expenditure			Deficit			
	Assessed		Collected (a)	Obligated		Paid out (a)	Obligated			Cash
	Current	Movement of capital		Current	Movement of capital		Current	Movement of capital	Total	
1938–39	27	3	—	39	2.8	—	— 12	+ 0.2	— 11.8	—
1949–50	1,419	252	1,618.2	1,716	232	1,703.9	— 297	+ 20	— 277	— 85.7
1950–51	1,720	272	1,658.4	1,894	319	1,820.0	— 174	— 47	— 221	— 161.6
1951–52	1,737	336	1,976.4	2,129	305	2,308.4	— 392	+ 31	— 361	— 332.0
1952–53	1,806	305	2,402.0	2,302	119	2,639.4	— 495	+ 185	— 310	— 237.4
1953–54	2,000	338	2,300.3	2,325	182	2,433.8	— 325	+ 156	— 169	— 133.5
1954–55	2,061 (b)	61.7 (b)	1,754 (c)	2,412 (b)	101,0 (b)	1,740 (c)	— 351 (b)	— 39.3 (b)	— 390.3 (b)	+ 14 (c)

(a) Current revenue (or payments) and movement of capital; on year account and arrears.
(b) Estimates at March 31, 1955 for the whole financial year. Provisional.
(c) Amounts collected and paid out in the period 1st July 1954-31st March 1955.
Source: *Bollettino Mensile di Statistica*; *Report on Italy's Economic Situation in 1954*, submitted to the Parliament by the Minister of the Budget, On. E. Vanoni, March 31, 1955.

ITALIAN DOMESTIC PUBLIC DEBT

(milliards of lire - Index Numbers, 1938=100)

Table B

End of period	Consolidated debt		Redeemable debt		Floating debt					Treasury notes	Total of domestic public debt	
					Treasury bills	Interest bearing current accounts	Advances by the Bank of Italy	Total				
	Amount	I. N.	Amount	I. N.				Amount	I. N.		Amount	I. N.
1950 - June . . .	53	100	586	1,196	719	628	490	1,837	6,123	9.0	2,486	1,862
1951 - June . . .	53	100	691	1,410	817	770	471	2,058	6,860	9.0	2,811	2,106
1952 - June . . .	53	100	829	1,681	920	822	471	2,213	7,376	15.0	3,110	2,329
1953 - June . . .	53	100	1,025	2,091	908	998	449	2,355	7,850	38.2	3,471	2,600
1954 - March . .	53	100	1,212	2,473	966	1,079	447	2,492	8,306	45.7	3,803	2,849
June . . .	53	100	1,212	2,473	974	1,078	447	2,499	8,330	46.5	3,811	2,855
September .	53	100	1,230	2,510	1,042	1,125	535	2,703	9,010	50.4	4,036	3,023
October . .	53	100	1,230	2,510	1,057	1,121	518	2,696	8,986	51.2	4,030	3,018
November .	53	100	1,230	2,510	1,070	1,113	528	2,711	9,036	52.2	4,045	3,029
December .	53	100	1,259	2,569	1,059	1,115	544	2,718	9,060	53.5	4,083	3,058
1955 - January . .	53	100	1,259	2,569	1,069	1,115	517	2,701	9,003	54.7	4,067	3,046
February . .	53	100	1,259	2,569	1,055	1,095	472	2,622	8,740	54.9	3,989	2,988
March . . .	53	100	1,490	3,040	1,058	1,100	526	2,684	8,946	55.4	4,282	3,207

Source: *Conto riassuntivo del Tesoro*.

CURRENT REVENUE BY MAIN CATEGORIES (a)

(Assessements)

Table C

Sources	1938–39		1952–53		1953–54		
	Millions of lire	%	Millions of lire	%	Millions of lire	%	Index Number 1938–39 = 1
1. *Revenue from taxation*:							
Direct taxes { recurrent	5,529	20.0	213,120	11.8	264,460	13.2	47.8
Direct taxes { non recurrent	1,096	4.0	106,125	5.9	97,203	4.9	88.7
Direct taxes - *Total*	6,625	24.0	319,245	17.7	361,663	18.1	54.6
Indirect taxes on transactions	6,089	22.1	598,688	33.1	689,819	34.5	113.3
Custom duties and consumption taxes	6,380	23.1	382,713	21.1	454,990	22.7	71 3
Consumption taxes on State monopolized products	3,580	13.0	276,537	15.3	295,675	14.8	82 6
Lotteries	544	2.0	30,425	1.7	31,922	1.6	58.7
Sundry revenue	297	1.1	33,971	1.9	37,602	1.9	126.6
Total	23,515	85.3	1,641,579	90.9	1,871,676	93.6	79.6
2. *Other Revenue*	4,061	14.7	112,399	6.2	126,107	6.3	31.1
	27,576	100.0	1,753,978	97.1	1,997,783	99.9	72.4
3. *American Aid*	—	—	52,204	2.9	2,494	0.1	—
Total	27,576	100.0	1,806,182	100.0	2,000,277	100.0	72 5

Source: *Report on Italy's Economic Situation in 1954*, submitted to the Parliament by the Minister of the Budget, On. E. Vanoni, March 31, 1955.

CURRENT BUDGET EXPENDITURE, BY MAIN CATEGORIES
(Obligated)

Table D

Items	1938–39		1950–51		1951–52		1952–53		1953–54		
	Millions of lire	%	Millions of lire	%	Millions of lire	%	Millions of lire	%	Millions of lire	%	I. N. (1938–39=1)
Public Works and railroads (a)	2,489	6.2	373,753	19.7	371,355	17.4	393,033	17.1	354,215	15.2	142.3
Economic services (b)	2,383	6.0	94,379	5.0	156,391	7.4	112,575	4.9	108,133	4.7	45.4
Justice	595	1.5	40,268	2.1	45,222	2.1	48,965	2.1	50,556	2.2	84.8
Defence	14,050	35.3	372,625	19.7	399,044	18.8	480,532	20.9	453,660	19.5	32.3
Police	1,227	3.1	105,396	5.6	113,216	5.3	115,916	5.0	119,331	5.1	97.3
Social Assistance	907	2.3	100,055	5.3	129,877	6.1	164,417	7.1	159,916	6.9	176.3
War pensions	829	2.1	87,442	4.6	92,569	4.4	97,987	4.3	129,959	5.6	156.8
Education	2,142	5.4	180,389	9.5	212,232	10.0	229,349	10.0	252,404	10.9	117.5
Service of public debt	6,775	17.0	101,820	5.4	119,641	5.6	144,594	6.3	184,004	7.9	27.2
Contributions to autonomous Administrations (c)	—	—	56,371	3.0	64,865	3.0	60,838	2.6	60,170	2.6	—
Subsidies (d)	—	—	—	—	—	—	—	—	15,900	0.7	—
Regional and local finance	45	0.1	118,245	6.2	130,474	6.1	126,788	5.5	143,567	6.2	—
Services of the Finance, Treasury and Budget Ministries	1,612	4.0	84,128	4.4	96,162	4.5	102,435	4.4	111,862	4.8	69.4
Peace treaty	—	—	38,787	2.1	31,976	1.5	43,387	1.9	18,394	0.8	—
State's general charges (e)	1,214	3.0	57,832	3.1	64,199	3.0	74,242	3.2	80,749	3.4	65.9
Expenditure connected with receipts (f)	877	2.2	35,752	1.9	47,263	2.2	51,100	2.2	36,963	1.6	42.1
Ex Italian colonies	3,847	9.7	14,882	0.8	11,117	0.5	10,522	0.5	10,288	0.4	2.7
Services abroad (g)	246	0.7	12,496	0.7	14,419	0.7	18,546	0.8	19,173	0.8	64.8
War charges	—	—	14,503	0.7	22,731	1.1	19,556	0.9	9,212	0.4	—
Expenditure for Albany	484	1.2	150	—	—	—	—	—	—	—	—
Sundry	74	0.2	4,321	0.2	6,073	0.3	6,900	0.3	6,864	0.3	92.8
Total	39,853	100.0	1,893,594	100.0	2,128,826	100.0	2,301,682	100.0	2,325,100	100.0	58.3

(a) War loss reparations; roads (grants to the National Autonomous Road Corporation (*Azienda Nazionale Autonoma Stradale*); upkeep of public works; land-reclamation works; allocations to the *Cassa del Mezzogiorno*; annuities due to the INA-CASE Administration (subsidised housing).

(b) Land-reclamation works, grants in aid of land improvement works; enlargement of the program of ship-building for the merchant marine; transports; agriculture and forests; public entertainments; information service; tourist activities; Government grant to the « Fund for the training of skilled workers »; etc.

(c) Mainly to the railway system.

(d) Wheat.

(e) Funds earmarked for raising Staff salaries etc.; expenses for Presidential Bureau of the Republic, Presidential Bureau of the Council of Ministers, Legislative Assemblies; expenses for internal Administration; reserve funds for unforeseen expenses; expenses for religious services; fire-brigade services and protection of the civilian population; etc.

(f) Restitutions and reimbursements; Government and other lottery prizes; etc.

(g) Diplomatic and Consular representation; cultural relations with foreign countries, etc.

Source: See Table C.

DEPOSITS AND CURRENT ACCOUNTS IN ITALIAN BANKING SYSTEM AND POSTAL SAVINGS BANKS

(index numbers, 1938=1) **Table E**

End of period	Banking System (a)						Postal Savings Banks						
	Deposits		Current Accounts (b)		Total		Deposits		Current Accounts		Total		Percent ratio to deposits and c/a of banking system
	Milliards of lire	Index numbers	Milliards of lire	Index numbers	Milliards of lire	Index numbers	Milliards of lire	Index numbers	Milliards of lire	Index numbers	Milliards of lire	Index numbers	
1950	1,172	31	1,063	62	2,235	41	689	24	128	116	816	27	36.5
1951	1,364	36	1,324	78	2,688	49	796	27	160	145	956	32	35.5
1952	1,688	44	1,647	96	3,335	60	963	33	197	179	1,160	38	34.7
1953	2,021	53	1,893	111	3,915	71	1,147	39	276	250	1,423	47	36.3
1954 March	2,049	54	1,868	109	3,917	71	1,181	40	261	237	1,442	48	36.8
June	2,095	55	1,935	113	4.030	73	1,188	41	244	221	1,432	47	35.5
September	2,193	57	2,008	118	4,201	76	1,200	41	276	250	1,476	49	35.1
October	2,216	58	2,041	120	4,257	77	1,201	41	262	238	1,463	48	34.3
November	2,244	59	2,064	121	4,308	78	1,203	41	255	231	1,458	48	33.7
December	2,341	61	2,132	125	4,473	81	1,263	43	252	229	1,515	50	33.8
1955 January	2,359	62	2,115	124	4,474	81	1,277	44	296	269	1,573	52	35.1
February	2,365	62	2.109	124	4,474	81	1,283	44	249	226	1,532	51	34.2
March	2,392	62	2,156	126	4.547	82	1,291	44	227	206	1,518	50	33.3

(a) The data refer to 365 banks (commercial and savings banks) which hold about 99% of the total deposits collected by all Italian banks.

(b) Inter-bank current accounts are excluded.

Source: *Bollettino* of the Bank of Italy.

DEPOSITS, CURRENT ACCOUNTS AND ASSETS OF ITALIAN BANKS (a)

(millions of lire) **Table F**

Items	31.12.52	31.12.53	31.3.54	30.6.54	30.9.54	31.12.54	31.3.55
Amount outstanding							
Deposits and current accounts	3,335,350	3,914,644	3,917,183	4,030,644	4,201,416	4,473,243	4,547,843
Cash and sums available at sight	345,027	359,076	287,698	302,123	288,696	402,713	354,900
Fixed deposits with the Treasury and other Institutions	423,403	466,493	488,941	525,538	621,882	549,398	585,868
Government Securities (b)	674,086	767,691	805,040	813,469	826,245	856,790	920,258
Credits to clients (c)	2,649,294	3,206,120	3,152,351	3,263,007	3,426,212	3,688,429	3,651,060
Index Numbers: 31-12-1948=100							
Deposits and current accounts	219.3	257.4	257.6	265.1	276.0	294.2	299.1
Cash and sums available at sight	204.1	212.4	170.1	178.7	170.7	238.2	209 9
Fixed deposits with the Treasury and other Institutions	238.2	262.4	275.0	295.6	349.8	309.0	329.6
Government Securities (b)	169.7	184.8	194.3	196.5	199.4	206.8	222.1
Credits to clients (c)	231.1	283 9	279.1	288.9	303.4	326.6	323.3
% of deposits and current a/cs							
Cash and sums available at sight	10.3	9.2	7.3	7.4	6.8	9.0	9.0
Fixed deposits with the Treasury and other Institutions	12.6	11.9	12.4	13.0	14.8	12.2	12.8
Government Securities (b)	20.2	19.6	20.5	20.2	19.6	19.1	20.2
Credits to clients (c)	79.4	81.9	80.4	80.9	81.7	82.4	80.2

(a) The data refer to 365 banks (commercial and savings banks) which hold about 99% of the total deposits collected by all Italian banks.

(b) Treasury bills and other Government securities. Nominal value.

(c) Includes: bills on hand, rediscount at the Bank of Italy, contangoes, advances, current accounts, credits abroad, loans recoverable on salaries, credits on note of hand, mortgage loans, current accounts with sections for special credits, non-Government securities, participations.

Source: *Bollettino* of the Bank of Italy.

NOTE CIRCULATION, PRICES, WAGES AND SHARE QUOTATIONS IN ITALY

Table G

(Index Numbers, 1938 = 100)

Year or month	Note Circulation (a)		Wholesale prices (c)		Cost of Living (c)	Wage rates in industry (c)	Share quotations (b)	Fine gold	
	Amount (b) (milliards of lire)	Index	All commodities	Foodstuffs				Price of one gram (lire) (d)	Index
1951 - December	1,304.2	5,796	5,454	5,355	5,416	6,685	1,714.9	885	3,403
1952 - December	1,411.1	6,271	5,288	5,624	5,612	7,426	2,316.6	770	2,961
1953 - December	1,487.9	6,612	5,256	5,659	5,678	7,573	2,390.9	720	2,769
1954 - March	1,369.8	6,088	5,336	5,808	5,693	7,586	2,438.6	722	2,776
June	1,377.2	6,120	5,256	5,664	5,850	7,736	2,425.9	714	2,746
September	1,449.0	6,440	5,267	5,738	5,857	7,946	2,724.8	717	2,757
October	1,441.4	6,406	5,276	5,764	5,847	8,005	2,822.3	721	2,773
November	1,442.7	6,412	5,320	5,868	5,874	8,012	2,922.7	720	2,769
December	1,578.4	7,015	5,350	5,921	5,882	8,012	3,089.7	722	2,776
1955 - January	1,483.3	6,592	5,353	5,907	5,880	8,058	3,311.6	737	2,811
February	1,474.9	6,555	5,323	5,782	5,867	8,058	3,398,4	736	2,830
March	1,472.4	6,544	5,317	5,788	5,880	8,058	3,237,5	726	2,792

(a) End of year or month. Includes: Bank of Italy notes and Treasury notes; (b) *Bollettino* of the Bank of Italy; (c) *Bollettino Mensile di Statistica* issued by the Central Institute of Statistics; (d) Business Statistics Centre of Florence.

PRICES AND YIELDS OF ITALIAN SECURITIES BY MAIN CATEGORIES

Table H

(annual or monthly averages)

Year or month	Government Securities								Shares	
	Bonds				9-year Treasury Bonds		Average			
	Consolidated		Redeemable							
	Price (index number '38 = 100)	Yield (per cent per annum)	Price (index number '38 = 100)	Yield (per cent per annum)	Price (index number '38 = 100)	Yield (per cent per annum)	Price (index number '38 = 100)	Yield (per cent per annum)	Price (index number '38 = 100)	Yield (per cent per annum)
1951 - a. av.	101.9	5.30	88.2	6.42	87.3	6.06	89.1	6.12	1,676.2	6.56
1952 - a. av.	101.1	5.34	90.6	6.25	89.2	5.93	91.3	5.97	1,988.5	6.19
1953 - a. av.	99.6	5.42	87.9	6.44	86.3	6.13	88.5	6.16	2,362.5	5.93
1954 - a. av.	99.4	5.43	88,7	6.38	85.0	6.22	87.8	6.21	2.596.4	5.98
1954 - March	99.4	5.44	88.7	6.38	84.2	6.28	87.1	6.26	2,438.6	6.35
June	99.8	5.41	89.0	6.36	85.6	6.18	88.2	6.18	2,425.9	6.38
September	99.1	5.45	89.1	6.35	84.9	6 23	87.6	6.22	2,724.8	5.69
December	100.3	5.40	88.9	6.37	84.9	6.23	87.6	6.22	3,089.7	5.04
1955 - January	99.4	5.43	89.3	6.34	83.4	6.34	86.5	6.30	3,361.6	4.72
February	98.0	5.51	88.3	6.41	83.3	6.35	86.1	6.33	3.398.4	4.75
March	97.3	5.55	87.1	6.50	83.2	6.36	85.8	6.35	3.237.5	5.07

Source: *Bollettino* of the Bank of Italy.

WHOLESALE PRICES BY GROUPS OF COMMODITIES

Table I

(Index Numbers, 1938 = 100)

Year or month	All Commodities	Foodstuffs		Textiles	Hides, Skins and Footwear	Raw materials, metal and engineering products	Fuels and lubricants	Chemical raw materials and products	Lumber	Paper goods	Bricks, Lime and Cement	Glass
		Vegetable	Animal									
1951 - a. av.	5,581	4,821	7,289	7,621	5,213	6,689	4.666	6,008	7,250	8,318	6,603	4,878
1952 - a. av.	5,270	4,869	6,796	6,343	4,245	6,767	4,440	5,717	8,343	6,246	7,216	4,707
1953 - a. av.	5,250	5,331	6,433	5,894	4,066	5,758	4,080	5,255	8,397	5,279	7,209	4,549
1954 - a. av.	5,293	5,265	6,959	5,691	3,804	5,414	4,240	5,073	8,510	5,380	7,261	4,329
1954 - March	5,336	5,340	6,901	5,725	4,015	5,445	4,278	5,113	8,440	5,507	7,290	4,329
June	5,256	5,245	6.629	5,725	3,854	5,295	4,217	5,126	8,440	5,299	7,295	4,329
Sept.	5,267	5,201	7,019	5,662	3,560	5,385	4,252	4,992	8,504	5,335	7,221	4,329
Dec.	5,350	5,284	7,475	5.629	3,610	5,501	4,260	5,080	8,805	5,344	7,283	4,329
1955 - January	5,353	5,349	7,239	5,623	3,587	5,552	4,269	5,138	8,962	5,301	7,274	4,206
February	5,323	5,300	6,928	5,641	3,559	5,695	4,255	5,180	9,154	5,171	7,274	4,206
March	5,317	5,290	6,960	5,610	3,552	5,795	4,252	5,228	9,181	5,283	7,275	4,206

Source: *Bollettino Mensile di Statistica*.

WAGES AND SALARIES IN ITALY

(gross retributions - inclusive of family allowances)
(Index Numbers, 1938=100)

Table L

Categories	1954 A. Av.	1954			1955		
		June	September	December	January	February	March
Industry:							
Specialized workers	6,763	6,726	6,909	6,981	7,025	7,025	7,025
Skilled workers	7,487	7,447	7,660	7,717	7,741	7,741	7,741
Ordinary workers and semi-skilled labourers	7,981	7,933	8,161	8,227	8,256	8,256	8,256
Labourers	8,638	8,603	8,807	8,879	8,972	8,972	8,972
General index of Industry	7,777	7,736	7,946	8,012	8,058	8,058	8,058
Agriculture	8,684	8,585	8,794	8,884	8,870	8,870	8,892
Government Civil Employees:							
Group A (a)	4,124	4,125	4,125	4,125	4,125	4,125	4,703
Group B (b)	4,055	4,056	4,056	4,056	4,056	4,056	4,494
Group C (c)	4,813	4,817	4,817	4,017	4,817	4,817	5,347
Subordinate staff	5,405	5,411	5,411	5,411	5,411	5,411	6,057
General Index of Government Civil Employees	4,553	4,556	4,556	4,556	4,556	4,556	5,090

(a) Administrative grade; (b) Executive grade; (c) Clerical grade.
Source: *Bollettino Mensile di Statistica.*

NATIONAL INDEX OF LIVING COST

(1938=100)

Table M

Year or month	All Items	Foodstuffs	Clothing	Heating and lighting	Housing	Miscellaneous
1951 - a. av.	5,320	6,279	6,975	3,746	1,232	5,248
1952 - a. av.	5,546	6,541	6,415	4,031	1,565	5,501
1953 - a. av.	5,654	6,680	6,224	4,091	1,720	5,549
1954 - a. av.	5,806	6,875	6,308	4,074	1,826	5,640
1954 - March	5,693	6,708	6,306	4,082	1,804	5,598
June	5,850	6,948	6,310	4,071	1,818	5,626
September	5,857	6,950	6,304	4,074	1,841	5,660
December	5,882	6,970	6,310	4,069	1,878	5,725
1955 - January	5,880	6,966	6,311	4,060	1,878	5,753
February	5,867	6,936	6,307	4,060	1,920	5,759
March	5,880	6,955	6,301	4,058	1,920	5,755

Source: *Bollettino Mensile di Statistica.*

PERSONS REGISTERED AT LABOUR EXCHANGE OFFICES (*)

Table N

End of period	Class I (a)	Class II (b)	Class III (c)	Class IV (d)	Class V (e)	Total	
							of which women
1952 - Monthly average	1,260,854	588,824	132,403	39,445	51,883	2,073,409	673,876
1953 - » »	1,281,967	664,566	133,071	47,840	53,786	2,181,230	735,134
1954 - » »							
1954 - March	1,362,289	685,649	139,112	54,030	49,200	2,290,280	743,488
June	1,208,957	631,172	135,596	53,116	43,683	2,072,524	746,495
July	1,202,803	625,017	136,482	53,557	42,342	2,060,201	746,121
August	1,192,299	617,849	133,996	53,402	42,620	2,040,166	723,873
September	1,193,093	614,610	133,511	53,670	42,511	2,037,395	716,620
October	1,230,674	622,238	134,828	54,589	43,236	2,085,565	727,215
November	1,298,176	638,110	136,978	55,868	46,337	2,175,469	736,955
December	1,428,700	668,400	138,500	59,000	49,600	2,344,200	751,574
1955 - January	1,473,512	683,650	138,167	60,627	51,839	2,407,795	732,541
February	1,417,945	677,099	136,752	60,355	51,073	2,343,219	711,372

(*) On the discrepancies between actual unemployed and persons registered at Labour Exchange Offices, see, *i.a.*, A. MOLINARI, *Unemployment Statistics in Italy with Special Reference to Southern Italy*, this Review, No. 21, 1952.

(a) Unemployed workers who were previously employed. (b) Young persons under 21 years of age, and other persons in search of their first employment, or discharged from the armed forces. (c) Women engaged in house work who are seeking their first employment. (d) Pensioners in search of employment. (e) Employed workers in search of other employment.

Source: Ministry of Labour.

ITALY'S NATIONAL INCOME; 1953 AND 1954 (*) **Table O**

	1953		1954		
	milliards of lire	%	milliards of lire	%	Index Numbers, 1953 = 100
1. Net national product at factor cost	8,667	78.1	9,154	77.6	105.6
1. - Private Sector	7,619	69.1	8,064	68.4	105.2
2. - Public Administration	998	9.0	1,086	9.2	108.8
2. *Plus* - Excise and local taxes not included in the evaluation of goods and services	1,439	13.0	1,604	13.6	111.5
3. *Equal* - Net national product at market prices (1+2)	10,106	91.1	10,758	91.2	106.5
4. *Plus* - Net income from abroad	29	0.3	23	0.2	79.3
5. *Equal* - National income at market prices (3+4)	10,135	91.4	10,781	91.4	106.4
6. *Plus* - Capital depreciation	958	8.6	1,016	8.6	106.1
7. *Equal* - Gross national income at market prices	11,093	100.0	11,797	100.0	106.3

(*) See explanatory notes in this Review, No. 20, 1952, 1st quarter, Table A, page 56.
Source: See Table C.

ADDED VALUE AND NET PRODUCT OF THE PRIVATE ECONOMIC SECTOR (*) **Table P**

Branches of economic activities	Milliards of lire				Percentages				Net product. Index Numbers 1953 = 100
	Added value		Net product		Added value		Net product		
	1953	1954	1953	1954	1953	1954	1953	1954	
1. Agriculture, foresty and fishing	2,678	2,634	2,479	2,430	31.2	29.2	32.3	30.1	98.0
2. Mining industries	116	125	82	88	1.3	1.3	1.2	1.1	107.3
3. Manufacturing industries	3,335	3,536	2,947	3,119	38.7	39.0	38.4	38.7	105.8
4. Building industry	531	609	478	550	6.2	6.8	6.2	6.8	115.1
5. Electricity, gas and water industries	255	270	209	220	2.9	2.9	2.7	2.7	105.6
6. Transportation and communications	643	713	531	598	7.5	7.8	6.9	7.4	112.6
7. Trade and sundry services	1,340	1,463	1,290	1,410	15.6	16.2	16.8	17.5	109.3
8. Credit and insurances	321	351	307	336	3.7	3.9	4.0	4.2	109.4
9. Building	160	175	125	138	1.9	1.9	1.6	1.7	110.4
10. *less*: difference due to duplications	- 779	- 821	- 779	- 821	- 9.0	- 9.0	-10.2	-10.2	105.4
Net Product of the private sector	8,600	9,055	7,669	8,068	100.0	100.0	100.0	100.0	105.2

(*) See explanatory note (b) in this Review, No. 20, 1952, 1st quarter, Table D, page 57.
Source: See Table C.

Table Q

CONSUMPTION EVALUATION IN 1953 AND 1954

Items of expenditure	Percentages		Index Numbers 1953 = 100
	1953	1954	1954
1. Foodstuffs	46.8	47.1	100.6
2. Tobacco and drinks	10.6	11.0	103.7
3. Clothing, wearing apparel materials for household use	12.6	11.9	94.4
4. Rents (gross)	2.1	2.2	104.7
5. Lighting, gas, water, heating	2.4	2.5	100.4
6. Domestic service, professional services and nursing etc.	7.1	6.9	97.2
7. Entertainments	5.3	5.3	—
8. Trasports communication and hotels	9.5	9.7	100.2
9. Sundry expenses	1.7	1.6	94.1
10. Durable consumer goods	1.9	1.8	94.7
Total	100.0	1.000	

Source: See Table C.

Table R

CONSUMPTION AND INVESTMENT: 1953-1954

	Milliards of lire		Percentages		Index Numbers 1953 = 100
	1953	1954	1953	1954	1954
1. Private Consumption	8,317	8,723	65.2	64.8	104.9
2. Public Consumption	832	862	6.5	6.5	103.6
3. Gross Investment	2,284	2,443	17.8	18.1	107.0
4. Exports	1,337	1,419	10.5	10.6	106.1
5. Available resources *Total*	12,770	13,447	100.0	100.0	105.3
6. *Less:* Imports	1,677	1,650	13.1	12.2	98.4
7. Gross national income at market prices	11,093	11,797	86.9	87.8	106.3

Source: See Table C.

ITALIAN INDUSTRIAL PRODUCTION INDEXES (a)

(unadjusted, 1938=100) **Table S**

Year or month	General Index	Mining	Manufactures										Electric Power
			Total	Food	Textiles	Lumber	Paper	Metallurgy	Engineering	Non metallic ores	Chemicals	Rubber	
1952 - a. av. . . .	142	145	136	146	105	62	113	150	142	137	172	142	193
1953 - a. av. . . .	165	179	159	152	115	167	129	149	170	162	225	160	206
1954 - a. av. . . .	181	201	175	158	117	173	134	173	176	174	278	194	219
1954 - March . . .	184	211	179	162	129	166	141	165	189	175	270	215	213
June	171	171	166	136	110	179	125	169	167	163	273	183	213
Sept.	191	200	186	159	130	182	138	182	193	193	287	217	225
Oct.	194	221	189	170	127	190	142	199	190	193	293	215	226
Nov.	185	221	180	170	114	187	140	187	171	187	286	208	216
Dec.	192	229	186	198	114	184	140	189	180	190	288	206	228
1955 - January . . .	184	237	177	158	109	158	135	192	178	177	288	206	227
February . .	179	222	174	154	105	158	138	186	187	175	269	206	210
March . . .	201	249	195	164	112	174	153	209	218	200	309	232	233

(a) The indexes of the Italian industrial production have been recently revised by the Central Institute of Statistics. Accordingly, the data published in this Table differ from the data published in the previous numbers of this Review.

Source: Bollettino Mensile di Statistica.

SELECTED BUSINESS INDICATORS

Index Numbers, 1948 (annual average)=100 **Table T**

Month	Number of rooms planned	Goods loaded and unloaded in Italian ports	Number of telegrams dispatched	Sales in department stores	Iron and steel Industry		Tourist movement	Railways traffic
					Orders	Stoks		
1953 - March	372.8	188.3	151.2	280.7	202.7	153.6	239.9	111.4
June	536.9	185.8	145.4	392.2	188.5	138.6	539.1	115.3
September	423.0	194.9	163.8	371.2	256.7	142.4	778.2	135.7
December	594.2	204.3	161.2	706.3	145.4	150.4	244.7	123.6
1954 - March	598.1	211.2	156.8	330.3	170.6	191.2	256.2	123.5
June	385.8	206.3	135.7	529.0	355.7	191.2	715.1	120.4
September	618.4	204.6	173.3	412.4	280.4	162.5	1,025.8	135.3
December	955.1	227.9	164.6	882.9	291.8	163.3	261.1	126.7
1955 - January	629.0	218.0	149 2	406.9	...	...	200.5	140.9
February	516.0	204.1	162.7	349.8	...	...	213.8	...
March	614.4	234.5	166.2	403.2	...	...	263.6	...

Source: Previsioni a breve termine.

INCREASE OF SELECTED CONSUMPTIONS AND DURABLE GOODS: 1953-1954 **Table U**

	1953	1954	% change		1953	1954	% change
1. Consumption of electric power for lighting (millions of kwh) (a) . . .	2,219	2,530	+ 14.0	6. Automobiles (No.) . .	112,110	137,310	+ 22.5
2. Animals slaughtered in Communes of more than 5,000 inhabitants (dead weight, qls) (b) .	3,717,474	4,085,997	+ 9.9	7. Motor-trucks (No.) .	28,173	30,864	+ 9.6
3. Wireless sets (number)	4,800,170	5,325,428 (c)	+ 10.9	8. Motorbuses (No.) . .	1,633	1,997	+ 22.3
4. Consumption of tobacco (qls)	416,286	444,801	+ 6.8	9. Farm tractors (No.) .	100,640	125,100	+ 24.3
5. Receipts of State Railways for passenger traffic (millions of lire) (d)	81,803	96,122	+ 17.5	10. Consumption of fertilisers (e):			
				— nitrogen	1,813,458	2,100,545	+ 15.8
				— phosphoric anhydrides	3,417,392	3,973,486	+ 16.3

(a) The figures relate to 1952-53 and 1953-54. (b) 1st nine months of 1953 and 1954. (c) Inclusive of subscribers to television. (d) 1st 11 months of 1953 and 1954. (e) Fertilising content expressed in quintals.

Source: See Table A.

ITALY'S IMPORTS AND EXPORTS BY MONETARY AND GEOGRAPHICAL AREAS: 1953-1954 — Table V

	1953					1954				
	Imports		Exports		Deficit	Imports		Exports		Deficit
	milliards of lire	%	milliards of lire	%		milliards of lire	%	milliards of lire	%	
Western hemisphere (a)	261	17.2	130	13.8	— 131	219	14.6	133	13.0	— 86
of which:										
United States and Canada .	225	(14.8)	99	(10.5)	— 126	193	(12.9)	88	(8.1)	— 105
Other countries	36	(2.4)	31	(3.3)	— 5	26	(1.7)	45	(4.9)	+ 19
E.P.U. Countries	1,027	67.9	626	66.5	— 401	1,014	67.5	688	67.3	— 326
of which:										
Sterling area	421	(27.8)	199	(21.1)	— 222	372	(24.8)	202	(19.8)	— 170
Other countries	606	(40.1)	427	(45.4)	— 179	642	(42.7)	486	(47.5)	— 156
Other countries with bilateral agreements (b)	159	10.5	146	15.4	— 13	164	10.9	157	15.5	— 7
Other countries without bilateral agreements (c)	65	4.3	23	2.4	— 42	103	6.9	26	2.5	— 77
Other countries	1	0.1	17	1.8	+ 16	1	0.1	18	1.7	+ 17
Total	1,513	100.0	942	100.0	— 571	1,501	100.0	1,022	100.0	— 479

Source: *Istituto Centrale di Statistica.*

(a) United States, Portorico, USA Dependencies in Central and North America, Canada, Costarica, Cuba, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, El Salvador, San Domingo, Bolivia, Chile, Colombia, Peru, Uruguay, Venezuela.

(b) Argentina, Brazil, Bulgaria, Czecholovakia, Egypt, Ecuador, Finland, Eastern Germany, Japan, Iran, Israel, Yugoslavia, Paraguay, Poland, Rumenia, Italian Somaliland, Spain, Hungary, URSS.

(c) Albany, Liberia, Buthan and Nepal, China, Korea, Lebanon, Mongolia, Syria, Greenland, Philippines.

ITALY'S FOREIGN TRADE BY MAIN COMMODITY GROUPS: 1953-1954 — Table W

	Imports				Exports			
	1953		1954		1953		1954	
	Milliards of lire	Percentages	Milliards of lire	Percentages	Milliards of lire	Percentages	Milliards of lire	Percentages
Foodstuffs	280	18 5	215	14.3	227	24.1	252	24.6
Textiles	261	17.5	253	16.9	212	22.5	204	20.0
Metallic ores	162	10.7	173	11.5	43	4.6	45	4.4
Engineering products	223	14.7	224	14.9	192	20.4	201	19.7
Coal and coke	102	6.7	93	6.2	2	0.2	1	0.1
Mineral oils	183	12.1	200	13.3	89	9.4	112	11.0
Other goods	302	20.0	343	22.9	177	18.8	207	20.0
	1,513	100.0	1,501	100 0	942	100.0	1,022	100.0

Source: See Table C.

ITALY'S NON-LIBERALIZED IMPORTS — Table Y

Years	Imports from Dollar area			Imports from OEEC Countries and Sterling Area			Imports from Other Countries			Italy's total imports	
		Quota non-liberalized			Quota non-liberalized			Quota non-liberalized			
	Milliards of lire	as a percentage of Italy's imports from « dollar area»	as a percentage of Italy's total imports	Milliards of lire	as a percentage of Italy's imports from « OEEC Countries and Sterling Area »	as a percentage of Italy's total imports	Milliards of lire	as a percentage of Italy's imports from « other Countries »	as a percentage of Italy's total imports	Milliards of lire	% non-liberalized
1946	57.8	93.6	62.9	10.2	96.5	11.5	18.0	100	20.9	86.0	95.3
1947	227.1	85.1	47.4	77.3	45.4	8.6	103.7	100	25.4	408.1	81.4
1948	369.0	94.1	42.3	155.7	67.1	12.7	296.5	100	36.1	821.2	91.1
1949	344.2	99.6	40.1	244.8	55.2	15.8	265.7	100	31.1	854.7	87.0
1950	249.2	99.7	27.7	508.2	49.6	28.1	139.6	100	15.5	897.0	71.4
1951	335.3	96.5	24.4	793.3	29.6	17.7	194.3	100	14.7	1,322.9	56.9
1952	367.7	83.0	21.1	822.1	1.5	0.9	254.2	100	17.6	1,444.1	39.6
1953	246.0	77.6	12.7	1,009.6	2.1	1.3	240.3	100	16.1	1,495.9	30.2
1954	215.3	65.7	9.4	1,034.4	0.9	0.6	250.2	100	16.7	1,499.9	26.7

Source: See Table C.

Table Z

MINIMUM AND MAXIMUM QUOTATIONS OF SOME ITALIAN COMPANIES QUOTED ON STOCK EXCHANGES

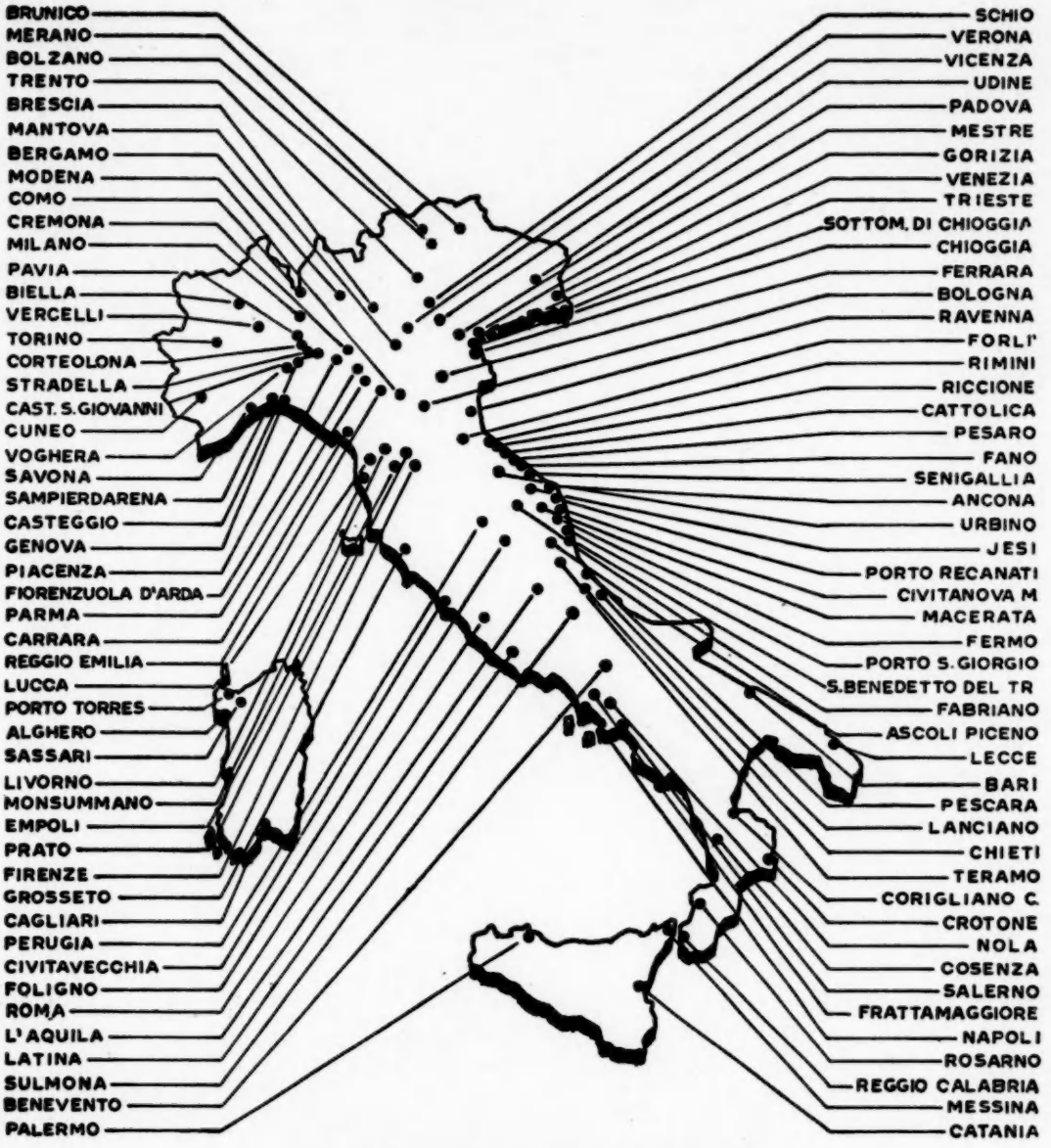
(Lire)

Companies	1954								1955	
	I Quarter		II Quarter		III Quarter		IV Quarter		I Quarter	
	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum
Financial and Insurance										
Strade Ferrate Meridionali (Bastogi)	1,350	1,248	1,286	1,155	1,478	1,263	1,697	1,414	1,850	1,410
S.T.E.T. - Soc. Torinese Eserc. Telefonici	2,525	2,380	2,465	2,120	2,465	2,280	2,705	2,340	2,950	2,200
La Centrale	9,225	8,485	8,630	7,600	9,200	8,240	10,250	8,930	10,950	8,200
Pirelli & C.	1,772	1,601	1,630	1,355	1,925	1,588	2,705	1,965	3,180	2,500
Assicurazioni Generali	13,900	12,860	13,470	11,950	16,550	13,200	18,600	16,370	19,795	15,830
Riunione Adriatica di Sicurtà	5,925	5,315	5,775	5,300	7,510	5,420	7,800	6,950	8,050	6,895
Textiles										
Snia Viscosa	1,453	1,312	1,433	1,269	1,450	1,293	1,740	1,414	1,883	1,340
Chatillon - Soc. Ital. Fibre Tessili Art.	2,645	2,180	2,470	2,100	2,430	2,030	2,530	2,150	2,465	2,165
Linificio e Canapificio Nazionale	793	620	717	660	824	680	844	768	790	600
Cotonificio Vittorio Olcese	2,230	1,845	1,910	1,600	1,800	1,640	1,915	1,500	1,635	1,030
Cucirini Cantoni Coats	8,470	8,050	8,100	7,025	7,680	7,150	8,250	7,345	8,025	7,425
Cotonificio Cantoni	12,790	11,380	12,050	10,500	12,425	10,800	13,850	12,030	13,780	10,325
Lanificio Rossi	19,800	16,900	19,375	14,400	16,450	14,850	15,875	13,300	15,050	12,700
Minerals, Metals and Engineering										
Monte Amiata	4,460	3,600	5,790	4,180	9,225	5,650	12,950	8,300	10,150	6,450
Ilva Alti Forni e Acciaierie d'Italia	304	266	297	228	294	239	332	283	402	331
Dalmine	2,261	2,050	2,269	1,215	1,419	1,217	1,495	1,324	1,600	1,380
Terni	194	171	181	152	231	177	245	218	268	209
F.I.A.T.	723	639	771	672	912	766	1,249	887	1,537	1,185
Ansaldo	1,050	800	1,000	850	1,000	850	1,450	860	2,038	1,000
Bianchi Edoardo	508	193	517	462	647	478	915	643	867	665
Public Utilities										
Società Edison	2,183	1,996	2,126	1,846	2,390	2,113	2,536	2,321	3,010	2,475
C.I.E.L.I.	2,495	2,303	2,420	2,030	2,690	2,408	2,885	2,620	1,375	1,220
Soc. Adriatica di Elettricità	1,050	944	1,102	940	1,132	1,040	1,190	1,102	1,519	1,280
S.I.P. - Soc. Idroelettrica Piemonte	1,297	1,189	1,274	1,207	1,316	1,229	1,362	1,275	1,240	1,084
Soc. Meridionale di Elettricità	1,094	972	1,086	960	1,157	1,079	1,195	1,128	5,050	4,500
Soc. Elettrica Selt - Valdarno	3,800	3,530	3,760	3,455	4,430	3,650	4,570	4,300	4,990	4,500
Soc. Romana di Elettricità	4,030	3,597	3,755	3,490	4,425	3,650	4,560	4,230		
Soc. Telefonica Tirrena - Serie A	3,650	3,130	3,610	2,900	3,415	2,965	3,550	3,230	3,945	3,100
Soc. Telefonica Tirrena - Serie B										
Italcable	4,380	4,050	4,350	3,900	4,550	4,000	5,560	4,425	5,705	4,600
Foodstuffs										
Eridania - Zuccherifici Nazionali	22,750	18,750	23,300	20,480	26,000	21,950	26,800	24,400	28,400	22,900
Soc. Italiana Industria Zuccheri	18,400	14,425	19,950	16,500	26,700	19,575	26,900	24,550	26,800	21,350
Chemicals										
Montecatini	1,421	927	1,390	1,228	1,491	1,275	1,705	1,446	2,814	1,745
A.N.I.C. - Azienda Naz. Idr. Combustibili	1,458	1,403	1,457	1,230	1,395	1,275	1,485	1,360	2,540	1,405
Società Italiana per il Gas	1,364	1,174	1,447	1,259	1,497	1,368	1,500	1,315	1,640	1,367
Sundry										
Soc. Gen. Immobiliare	421	383	412	370	442	385	552	431	683	520
Istituto Romano dei Beni Stabili	8,600	8,108	8,280	6,180	8,650	7,475	9,675	8,500	9,850	8,300
Pirelli Soc. per Azioni	1,905	1,730	1,845	1,605	2,045	1,809	2,735	2,080	3,250	2,600
Italcementi	9,530	8,580	9,515	8,400	10,800	9,265	12,125	10,700	12,390	10,750
Cartiere Burgo	10,980	9,900	10,900	10,000	13,060	10,680	13,600	12,700	14,125	12,200

Source: *Bollettino Mensile di Statistica.*

BANCA NAZIONALE DEL LAVORO

BRANCHES IN ITALY



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Branch in Spain: MADRID - Calle Principe, 12